



Comprehensive Annual Financial Report

For Fiscal Year Ended June 30, 2011

Missouri State Lottery Commission
An Enterprise Fund of the State of Missouri



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An Enterprise Fund of the State of Missouri

Prepared by Financial and Business Services

Missouri State Lottery Commission

(An Enterprise Fund of the State of Missouri)

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For the Fiscal Year Ended June 30, 2011

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Introductory Section



Missouri Lottery

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Letter of Transmittal

October 17, 2011

To: Kevin Roberts, Chairperson, Missouri State Lottery Commission
Gina Hoagland, Member
Jacque Land, Member
Stephen Snead, Member
Pamela Wright, Member
May Scheve Reardon, Executive Director
Citizens of the State of Missouri

Introduction

We are pleased to submit to you this Comprehensive Annual Financial Report (CAFR) of the Missouri State Lottery Commission (the Lottery) for the fiscal year ended June 30, 2011. Management is responsible for the accuracy of the financial data, as well as the completeness and fairness of the information and disclosures within this report. To the best of our knowledge and belief, the enclosed information is accurate in all material respects and is reported in a manner designed to present fairly the financial position, results of operations and cash flows of the Lottery. We have included all disclosures necessary to enable the reader to gain an understanding of the Lottery's financial activities.

The Comprehensive Annual Financial Report presents an overview of the Lottery and is organized into four sections. The Introductory Section includes this letter of transmittal, certificate of achievement and an organizational chart. The Financial Section includes the report of independent auditors, management's discussion and analysis and the basic financial statements with the accompanying notes. The Statistical Section presents a variety of historical, demographic and industry data. The final section, Compliance Section, includes a report on internal control and compliance.

Background

The Lottery was created by the passage of a constitutional amendment on November 6, 1984, by the citizens of the State of Missouri. Ticket sales began January 20, 1986, with the introduction of a single scratch-off game, "Jackpot '86." This represented the first legislatively authorized lottery tickets sold in Missouri since the New Franklin Railroad Lottery (later known as the Missouri State Lottery) was closed down in 1877.

When the Lottery began in 1986, proceeds from ticket sales went to the Missouri State General Revenue Fund. In August 1992, voters passed Amendment 11 earmarking Lottery proceeds to solely benefit public education. Each year, the Missouri Legislature determines how these proceeds will be allocated. The proceeds represent about 4 percent of the total funding for Missouri's public elementary, secondary and higher education systems.

Lottery funds help support a variety of programs including the elementary and secondary education Foundation formula, virtual education, special education, vocational rehabilitation, performance-based assessment program, Access Missouri and A+ programs, college and university operating budgets, and minority teaching scholarships. These programs and others that receive Lottery money provide the resources that help Missouri students fulfill their individual dreams — dreams that define Missouri's future and ultimately benefit all Missouri residents.

The Lottery is a Type III division assigned to the Missouri Department of Revenue as defined in Section 313.210 of the Missouri Revised Statutes. The Department of Revenue has no control, supervision or authority over the actions or decisions of the Lottery. The Lottery Commission consists of five members appointed by the Governor with the advice and consent of the Senate.

The Lottery is an enterprise fund of the State of Missouri and is included in the State's Comprehensive Annual Financial Report. This report presents the activity of the Lottery as a single enterprise fund and does not include information related to any other state agency or fund.

Products

The Lottery provides the opportunity for the public to participate in a variety of instant ("Scratchers") and Draw Games. The games are described as follows:



Scratchers Games are played by scratching off a latex coating on the play area of the ticket. There are different ways to win including matching certain symbols, adding up to a specified total or otherwise satisfying the requirements listed on the ticket. If the specified condition occurs, the ticket is an instant winner. These play styles are combined with a variety of game themes and ticket prices. These games were the first type of games offered by the Lottery and continue to represent well over 60 percent of our total annual ticket sales. For fiscal year 2011, Scratchers ticket sales were more than \$666.3 million, which represents 66.6 percent of total ticket sales.

Draw Games allow players to select the numbers for their wager or players may utilize computer-generated plays. The player receives a ticket with the numbers selected or automatically generated and must await the results of a drawing to determine if they have matched the numbers and won.

Powerball is a multi-state Draw Game jointly operated by the 33 member lotteries of the Multi-State Lottery Association and sold in 44 states. Players select one set of five numbers from a pool of one to 59 and one additional number designated as the "Powerball" from a second pool of one to 39. To win the jackpot, all six numbers must be matched. The minimum jackpot amount is \$20 million, which increases for each subsequent draw when the jackpot is not won. There are eight secondary prizes of fixed amounts, ranging from \$3 to \$200,000.* The Power Play feature allows players the chance to multiply the original prize amount, excluding the jackpot prize, up to five times. Players who use Power Play and match all five white-ball numbers automatically win \$1 million. A jackpot winner may select either an annuitized prize paid in 30 annual installments or a lump-sum payment. Drawings are held every Wednesday and Saturday night. Powerball sales for fiscal year 2011 were approximately \$83.3 million, which represents 8.3 percent of total ticket sales.



*Effective January 15, 2012, the Powerball ticket price increases from \$1 to \$2, the minimum jackpot amount increases from \$20 million to \$40 million, the second ("Powerball") number pool decreases from 39 to 35, and the secondary prize range increases from a minimum of \$3 to \$4 and a maximum of \$200,000 to \$1 million, resulting in more millionaires, bigger starting jackpots and better overall odds.



Missouri Lotto is the original in-state Draw Game that creates millionaires. Twice a week, on Wednesdays and Saturdays, Lotto players have a chance to win \$1 million or more. Players select six numbers from a pool of one to 44 and must match all six numbers to win the jackpot. Prizes are also paid for matching three, four or five numbers. The jackpot starts at \$1 million and increases, based upon ticket sales, for each subsequent draw when the jackpot is not won. Lotto sales were approximately \$25.2 million in fiscal year 2011, representing 2.5 percent of total ticket sales.

Show Me Cash replaced Show Me 5 Paydown in September of 2008. Players select five numbers from a pool of one to 39 and must match all five numbers to win the jackpot. The jackpot starts at \$50,000, and if no player matches all five numbers, the top prize increases based on ticket sales. Prizes are also paid for matching two, three or four numbers. Drawings are held daily. Beginning March 6, 2011, an EZ Match option was added. Players can add EZ Match for an additional \$1 per Show Me Cash play. If the EZ Match option is chosen, five EZ Match numbers print on the Show Me Cash ticket below the Show Me Cash numbers. If any of the EZ Match numbers match the Show Me Cash numbers (regardless of order), the player instantly wins the prize amount printed next to the matched EZ Match numbers. Fiscal year 2011 Show Me Cash and EZ Match sales were approximately \$29.5 million and \$2.5 million, or 2.9 percent and .2 percent of total ticket sales, respectively.



With Pick 3, players select three numbers between zero and nine and can play the numbers straight (numbers in the exact order), boxed (numbers in any order) or front/back pair (match the exact order of the first or last two digits). Drawings are conducted twice per day. For fiscal year 2011, Pick 3 sales were nearly \$64.1 million, which was 6.4 percent of total ticket sales.

Pick 4 is played similar to Pick 3 with players selecting four numbers between zero and nine. Players may play the numbers straight, boxed, front/middle/back pair, and front/back three (match the exact order of the first or last three digits). Drawings are also conducted twice per day for Pick 4. Sales for fiscal year 2011 were nearly \$29.6 million, or 3 percent of total ticket sales.



Club Keno is a Draw Game offered in all Missouri Lottery retail locations and provides drawings every four minutes. Players first choose how many different numbers (also called "spots") they wish to play from one to 10. The player must then choose a number from one to 80 for each spot. Twenty numbers from the pool of one to 80 are chosen in a computerized random Club Keno drawing. Prizes vary depending on how many spots a player chooses and how many of the players' numbers match the numbers drawn. Club Keno also offers Multiplier, Bulls-Eye and Progressive Jackpot features. A Double Bulls-Eye option began August 28, 2011, which offers even more chances to win and larger prizes. For fiscal year 2011, Club Keno sales were \$65.3 million, which was 6.5 percent of total ticket sales.

In March of 2009, the Lottery introduced a new game - Lucky Dough – which was available at retail locations that offer Club Keno. To play Lucky Dough, a player selected one number (of the five numbers) in each of eight squares. A center square is a "Free Square." Winning was based on matching numbers in each individual square to produce one or more "lines," either vertically, horizontally or diagonally. Prize amounts were based upon the number of lines matched. Drawings were conducted every five minutes. Lucky Dough was discontinued in July of 2010. Sales for fiscal year 2011 for Lucky Dough were approximately \$46,000, representing .005 percent of total ticket sales.



On January 31, 2010, the Lottery began selling the Mega Millions game as a cross-selling agreement between Mega Millions and Powerball. Mega Millions is a multi-state Draw Game available for sale in 42 lottery jurisdictions. Players select one set of five numbers from a pool of one to 56. All six numbers must be matched to win the jackpot. The jackpot starts at \$12 million and increases for each draw when the jackpot is not won. There are eight secondary prizes of fixed amounts ranging from \$2 to \$250,000. Players have the option to select the Megaplier feature that will increase the non-jackpot prize winnings by two, three or

four times their original amount. Players who use the Megaplier and match all five numbers, except the Megaball, win \$1 million. A jackpot winner may select a lump-sum payment or an annuity paid in 26 installments. Drawings are held every Tuesday and Friday night. Mega Millions sales for fiscal year 2011 were approximately \$34.9 million, which represents 3.5 percent of total ticket sales.

Economic Conditions and Outlook

The deep recession that began December of 2007 may have ended, but the economy remains in a severe slump. Growth in economic activity was especially slow during the first half of calendar year (CY) 2011 with the inflation-adjusted Gross Domestic Product (GDP) showing minuscule gains.

GDP is the broadest measure of economic activity. The economic output of the national economy, as measured by the GDP, expanded in CY 2010 by 3 percent. However, during the first half of CY 2011, the average GDP grew at an average annual rate of 0.8 percent.

The unemployment rate remains well above the pre-recession rate of 5 percent. The effects of the American Recovery and Reinvestment Act of 2009 (ARRA) on employment are diminishing. During the first four months of CY 2011, the national unemployment rate dropped from 9.4 to 8.8 percent; however, the rate has remained steady at 9.1 percent since May. Unemployment rates in Missouri have followed the national trend, with CY 2010 dropping slightly and holding steady between 9.1 and 9.5 percent. During CY 2011, the Missouri unemployment rate has dropped from 9.5 percent in January to 8.8 percent in August.

During CY 2010, consumer spending grew modestly at 3 percent. Consumer spending slowed during the first half of CY 2011 with a growth of 1.1 percent. The slowdown in consumer spending is partially due to the increase in oil prices and reduced imports caused by the earthquake and nuclear accident in Japan. Federal fiscal policy will also affect consumer spending. Both legislative actions and automatic changes in the budget provide decreasing support for economic activity this year and in CY 2012. If the 2010 tax act expires as scheduled, consumers will have less disposable income in CY 2012.

Missouri Lottery sales grew in fiscal year 2011 despite the economic downturn, low consumer spending and negative impacts from weather-related disasters, high gas prices, and competition from the casino industry and lotteries of bordering states. Negative impacts were offset by increased advertising, changes in games such as EZ Match and Keno To Go, 25th anniversary games and promotions.

Missouri Lottery sales are expected to grow slightly in fiscal year 2012 with the introduction of \$2 Powerball, new subscription and loyalty programs, deployment of new self-service lottery vending machines and continued advertising.

Highlights of The Past Year

Ticket sales for the Lottery surpassed the \$1 billion mark for the first time in the Lottery's 25-year history. Fiscal year 2011 sales of just over \$1 billion exceeded fiscal year 2010 sales of \$971.9 million by \$28.8 million, or 3 percent. An increased advertising budget boosted Scratchers sales, helping to offset the Lottery's worst year in Powerball sales since 1997.

For fiscal year 2011, the level of operating expenses increased by 2.9 percent. Total operating expenses increased from \$724.9 million in fiscal year 2010 to \$746.1 million in fiscal year 2011. Much of the increase - \$14.5 million - is attributable to increased Scratchers prizes; \$6.1 million is attributable to additional advertising money appropriated through the legislative process. The Lottery continues to operate with one of the lowest administrative cost ratios in the country. The net impact of these results for fiscal year 2011 was an increase in the transfer of profits for public education from \$255 million to \$259.4 million. In addition, the Lottery returned in excess of \$639 million to players in cash and prizes and \$61.9 million to retailers in commissions and incentives for the 2011 fiscal year.

Management's discussion and analysis (MD&A) can be found immediately following the report of independent auditors and provides a narrative introduction, overview and analysis of the basic financial statements. The Lottery's MD&A complements this letter of transmittal and should be read in conjunction with it.

In addition to financial accomplishments, other noteworthy accomplishments during fiscal year 2011 included:

- The placing of 24-bin instant ticket vending machines in sporting venues.
- The launch of the retailer extranet.
- The launch of anniversary Scratchers games marking the Lottery's 25th year in operation.
- Exceeding minority- and women-owned business expenditure goals of 10 percent and 5 percent, respectively, with participation rates of 11.18 percent and 5.79 percent, respectively.
- Installation of a general ledger software package.

Relevant Financial Policies

Budgetary Controls:

The Lottery annually submits a request for appropriation through the budgetary process of the State of Missouri. Expenditures of the Lottery are subject to this annual appropriation process. Certain costs of operations for the Lottery are paid directly by the Missouri Office of Administration through appropriations administered by that agency. These costs include employee benefits, select capital improvements projects and certain facility-related costs.

Expenses associated with the operation of the Lottery are submitted for payment through the Missouri Office of Administration, Division of Accounting. The Lottery maintains its own signature authority for payment of prizes through an imprest checking account. The Lottery has its own purchasing authority and has adopted the same rules and procedures as that of the Office of Administration, Division of Purchasing and Materials Management.

All profits from Lottery operations are designated for appropriation by the State solely for the institutions of public elementary, secondary and higher education. The Lottery makes estimated weekly transfers to the Lottery Proceeds Fund with a monthly transfer adjustment done based on calculated net income for the month.

Debt Administration:

The Lottery's long-term liabilities are primarily payments owed to multi-year prize winners in the form of annual payments. These payments are fully funded by U.S. Treasury Strips held by the State of Missouri. The payments due Powerball and Mega Millions jackpot winners are funded through securities purchased and held by the Multi-State Lottery Association. As such, the Lottery does not record, and the financial statements do not reflect, a liability for future payments of Powerball and Mega Millions prizes funded by the Multi-State Lottery Association.

Internal Control Environment

Management of the Lottery is responsible for establishing and maintaining an internal control structure designed to ensure that assets are protected from loss, theft or misappropriation. The internal control system is also designed to ensure that the accounting system provides accurate and timely financial information and that the Lottery is in compliance with applicable laws and regulations. The structure does not provide a guarantee, but rather reasonable assurance that these objectives are met.

To enhance controls over accounting procedures, the Lottery has segregated appropriate functions where feasible, and added additional administrative reviews of areas not clearly segregated to ensure compliance with established control policies.

Section 313.315 of the Missouri Revised Statutes requires the State Auditor to conduct a biennial audit of all accounts and transactions of the Lottery, and such other special audits, as it may deem necessary. The Lottery is also required to employ an independent firm of accountants to conduct an annual audit of all accounts and transactions of the Lottery. This audit includes consideration of internal controls over financial reporting as they relate to the expression of an opinion on the financial statements.

In addition, the Lottery has, from time to time, employed the services of other qualified external firms to conduct reviews of our security procedures for data processing and controls with game operations.

Government Finance Officers Association Certificate of Achievement

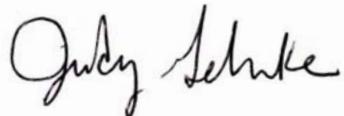
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Missouri State Lottery Commission for its comprehensive annual financial report for the fiscal year ended June 30, 2010. This was the eleventh consecutive year that the Lottery has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgements

The preparation of this Comprehensive Annual Financial Report reflects our commitment to maintain the highest standards of public accountability. We reaffirm our commitment to continually improve our financial management and maintain the public's trust by exhibiting the highest ethical standards and uncompromising integrity. Publication of this report could not have been accomplished without the dedicated efforts of our employees, especially those within the Financial and Business Services Section. We would also like to recognize Executive Director May Scheve Reardon, Commission Chairperson Kevin Roberts, and Commissioners Gina Hoagland, Jacque Land, Stephen Snead and Pamela Wright for their support, guidance and dedication in operating the Missouri Lottery Commission in a responsible and progressive manner.

Respectfully submitted,



Judy Gehrke, CPA
Chief Financial Officer
Missouri State Lottery Commission

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Missouri State
Lottery Commission

For its Comprehensive Annual

Financial Report

for the Fiscal Year Ended

June 30, 2010

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

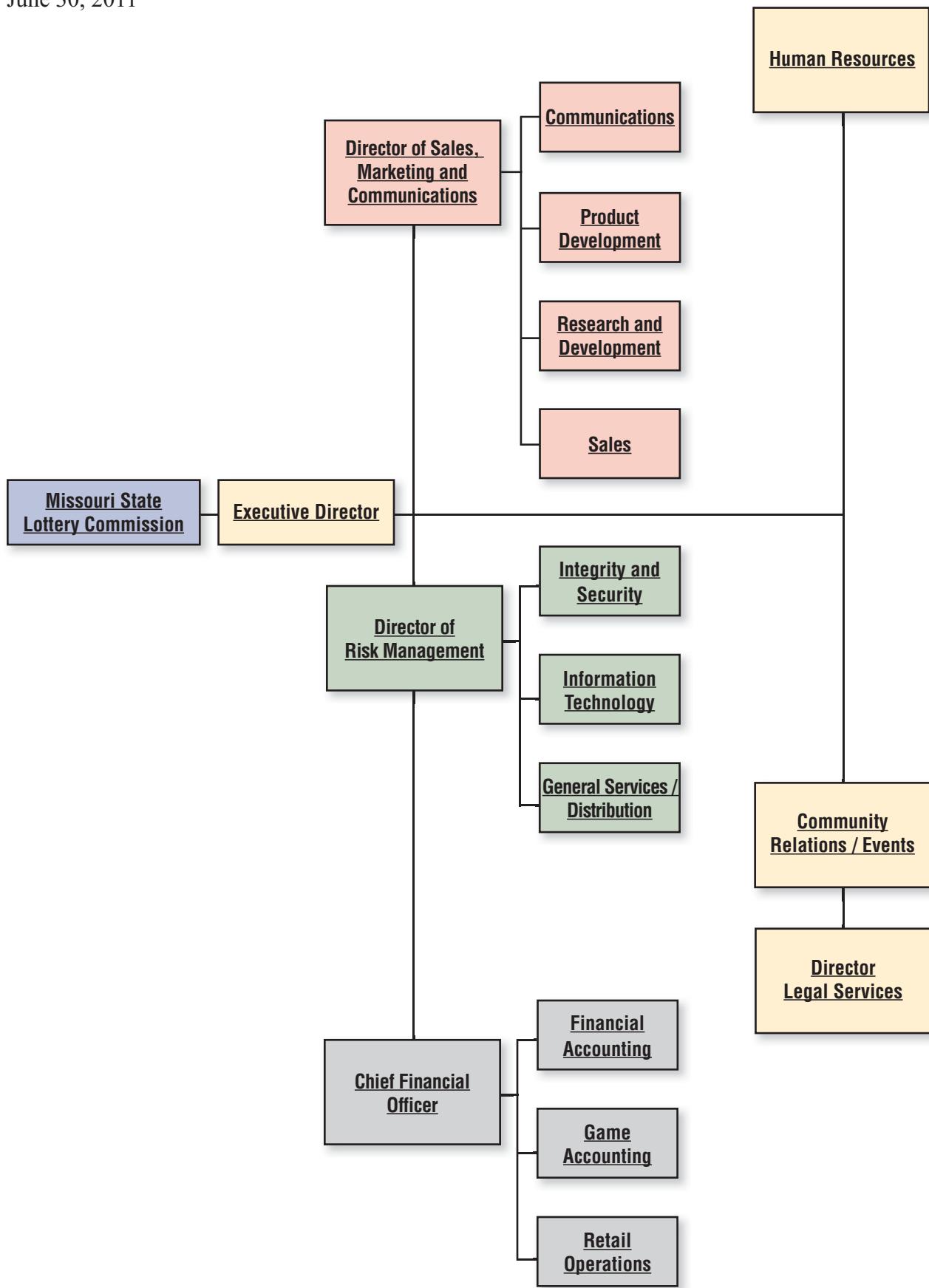


President



Executive Director

Missouri State Lottery Commission
Organizational Chart and Principal Officials
June 30, 2011



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Financial Section

REPORT OF INDEPENDENT AUDITORS

To the Missouri State Lottery Commission
Jefferson City, Missouri

We have audited the accompanying basic financial statements of the business-type activity of the Missouri State Lottery Commission (the Lottery), an enterprise fund of the State of Missouri, as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the Lottery's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements for the year ended June 30, 2010 were audited by other auditors, whose report dated November 12, 2010, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Lottery and do not purport to, and do not, present fairly the financial position of the State of Missouri, as of June 30, 2011, and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the business-type activity of the Lottery as of June 30, 2011, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2011, on our consideration of the Lottery's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

UHY LLP

St. Louis, Missouri
October 17, 2011

Missouri State Lottery Commission
 (An Enterprise Fund of the State of Missouri)

Management's Discussion and Analysis (Unaudited)
For the Fiscal Years Ended June 30, 2011 and 2010

The following Management's Discussion and Analysis (MD&A) provides an overview of the Missouri State Lottery Commission's (the Lottery) financial performance and financial activities for the fiscal years ended June 30, 2011 and 2010. The information contained in this MD&A should be considered in conjunction with the information contained in the financial statements, notes to the financial statements, the other information included in the Statistical Section, and the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.

Financial Statements Presented in This Report

The Lottery is a Type III division of the State of Missouri, created to generate revenues for public education through the operation of a lottery. The Lottery's activities are accounted for as an enterprise fund using the accrual basis of accounting, which is comparable to the method used by private business entities. The Lottery is an enterprise fund of the State of Missouri and is included in the State's Comprehensive Annual Financial Report. This report presents the activity of the Lottery as a single enterprise fund and does not include information related to any other state agency or fund.

This annual report includes three financial statements for the fiscal years ended June 30, 2011 and 2010. The Statements of Net Assets provide information on the nature and amount of the Lottery's assets, liabilities and net assets at the end of each fiscal year and provide a measure of the Lottery's economic resources. The Statements of Revenues, Expenses and Changes in Net Assets reflect the operating and non-operating revenues and expenses and the changes in net assets for each year. The Statements of Cash Flows reconcile the changes in cash and cash equivalents with the activities of the Lottery for each year.

The Notes to the Basic Financial Statements provide additional detailed information to supplement the basis for reporting and nature of key assets and liabilities.

Financial Analysis
Summary of Net Assets

	As of June 30,		
	2011	2010	2009
Assets			
Current assets	\$86,717,980	\$77,427,149	\$72,726,299
Capital assets (net of accumulated depreciation)	3,364,727	3,458,481	3,478,013
Investments held for grand-prize winners at fair value - noncurrent	47,260,330	54,617,645	57,808,429
Total assets	137,343,037	135,503,275	134,012,741
Liabilities			
Current liabilities	87,063,446	77,768,780	73,042,629
Long-term liabilities	43,976,854	49,785,262	54,199,467
Total liabilities	131,040,300	127,554,042	127,242,096
Net Assets			
Invested in capital assets	3,364,727	3,458,481	3,478,013
Unrestricted	(3,364,727)	(3,458,481)	(3,478,013)
Restricted	6,302,737	7,949,233	6,770,645
Total net assets	\$6,302,737	\$7,949,233	\$6,770,645

Missouri State Lottery Commission
(An Enterprise Fund of the State of Missouri)

Management's Discussion and Analysis (Unaudited)
For the Fiscal Years Ended June 30, 2011 and 2010

Current Assets

Current assets consist primarily of cash and cash equivalents, accounts receivable from retailers and the current portion (maturing within one year) of investments held in United States guaranteed marketable securities on behalf of past grand-prize winners. During fiscal year 2011, current assets increased by \$9,290,831. This increase was due to an increase in cash balances and in accounts receivable balances from retailers.

For fiscal year 2010, current assets increased by \$4,700,850 from the fiscal year 2009 balances. This was due to an increase in accounts receivable balances from retailers.

Noncurrent Assets

Investments held for grand-prize winners represents the market value of the investments held in United States guaranteed marketable securities on behalf of past grand-prize winners that mature beyond one year. These investments were purchased to fund the annual payments for winners that were required to or elected to receive annuity payments and consist of United States Government-backed obligations of zero coupon bonds and stripped securities that equal the face amount of the bond or security upon maturity. Originally, winners of jackpots were required to receive annuity payments. Subsequently, winners were allowed to elect a lump-sum payment instead of a long-term annuity. Since this option has been available, the trend among winners has generally been to elect the lump-sum payment and, therefore, fewer purchases of securities have been required. This was true in fiscal year 2011, as this category decreased by \$7,357,315. In fiscal year 2010, this category also decreased \$3,190,784 due to more lump-sum payments and fewer purchases of annuities.

Capital assets consist of land, buildings, vehicles, computers and software, and other equipment and is reported net of all related accumulated depreciation. For fiscal year 2011, net capital assets declined by \$93,754, as the level of depreciation expenses for the fiscal year exceeded the cost of additions to capital assets.

In fiscal year 2010, the level of capital assets decreased by \$19,532 due to the level of depreciation expenses for the fiscal year exceeding the cost of additions to capital assets.

Current Liabilities

Current liabilities consist primarily of accrued prize liabilities, other accrued expenses, amounts due the Lottery Proceeds Fund, and accounts payable to suppliers. In fiscal year 2011, current liabilities increased by \$9,294,666, which was the result of increased prize liabilities of \$3,372,883, an increase in the amount due the Lottery Proceeds Fund of \$5,853,822, and an increase in accrued expenses and accounts payable of \$67,961.

In fiscal year 2010, current liabilities increased by \$4,726,151, which reflected increased prize liabilities of \$55,388, increased amount due to the Lottery Proceeds Fund of \$4,691,334, and decreased accrued expenses and accounts payable of \$20,571.

Long-Term Liabilities

Long-term liabilities include the long-term portion of amounts payable to grand-prize winners and the deferred portion of the amount due the Lottery Proceeds Fund. For fiscal year 2011, the long-term liabilities have decreased by \$5,808,408. As discussed previously, the trend of winners to elect lump-sum payments in lieu of annuity payments has resulted in fewer additions to long-term annuities and a reduction in the long-term liability as older annuities are paid off. The long-term liabilities for the grand-prize winners in fiscal year 2011 declined by \$5,709,334. The deferred portion of the amount due the Lottery Proceeds Fund declined in fiscal year 2011 by \$99,074. This deferred amount represents the net book value (cost less accumulated depreciation) of capital assets acquired after September 1, 1988, and all amounts receivable from the Multi-State Lottery Association. The decrease was the result of depreciation expense recognized during the fiscal year and funds received from the Multi-State Lottery Association to decrease the amount receivable.

Missouri State Lottery Commission
 (An Enterprise Fund of the State of Missouri)

Management's Discussion and Analysis (Unaudited)
For the Fiscal Years Ended June 30, 2011 and 2010

In fiscal year 2010, long-term liabilities declined by \$4,414,205, as decreases in the long-term liabilities for the grand-prize winners decreased by \$4,364,636, and the deferred amount to the Lottery Proceeds Fund declined by \$49,569.

Net Assets

Net assets invested in capital assets are unrestricted. Restricted net assets are the cumulative result of increased fair market value of the United States guaranteed marketable securities held by the Lottery to pay prize winners on an annuity basis.

Changes in Net Assets

	For the Year Ended June 30,		
	2011	2010	2009
Operating revenues			
Ticket sales	\$1,000,678,406	\$971,864,485	\$968,451,895
Other operating revenues	523,186	50,414	596,377
Total operating revenues	1,001,201,592	971,914,899	969,048,272
Operating expenses			
Direct costs:			
Prize expense	639,010,195	628,057,994	629,276,635
Retailer commissions and incentives	61,850,265	59,900,383	60,109,568
Other direct costs	16,522,096	16,106,631	16,077,548
Total direct costs	717,382,556	704,065,008	705,463,751
Administrative expenses	28,688,464	20,809,357	20,466,793
Total operating expenses	746,071,020	724,874,365	725,930,544
Operating income	255,130,572	247,040,534	243,117,728
Nonoperating revenues (expenses)			
Interest income	151,545	310,040	731,222
Gain (loss) on disposal of capital assets	43,687	3,739	(26,702)
Unclaimed prizes	9,853,309	12,318,398	12,403,901
Transfers from the State of Missouri	-	-	60,481
Transfers to the State of Missouri	(265,179,113)	(259,672,711)	(256,286,630)
Amortization of grand-prize winner liability	(2,904,666)	(3,381,475)	(3,861,661)
Net increase in the fair value of investments held for grand-prize winners	1,258,170	4,560,063	4,365,372
Net nonoperating revenues (expenses)	(256,777,068)	(245,861,946)	(242,614,017)
Changes in net assets	(1,646,496)	1,178,588	503,711
Total net assets, beginning of year	7,949,233	6,770,645	6,266,934
Total net assets, end of year	\$6,302,737	\$7,949,233	\$6,770,645

Changes in net assets are the result of fluctuations in market yields, which increase or reduce the unrealized gain on investments.

Missouri State Lottery Commission
 (An Enterprise Fund of the State of Missouri)

Management's Discussion and Analysis (Unaudited)
For the Fiscal Years Ended June 30, 2011 and 2010

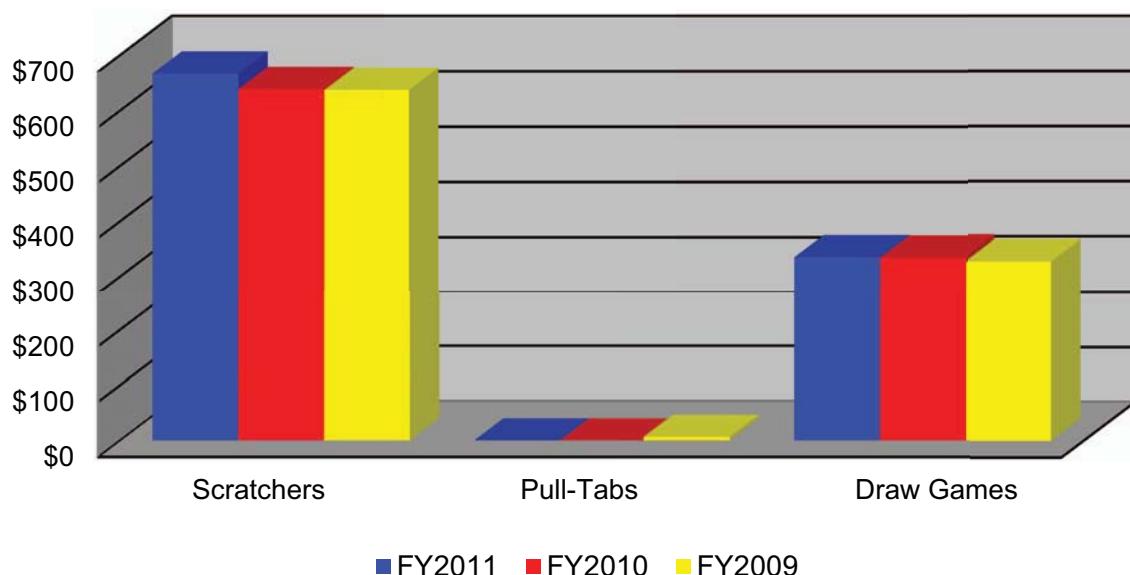
Because the Lottery is required to transfer its net income (excluding the unrealized gain or loss on investments) to the Lottery Proceeds Fund, the changes in net assets does not reflect the results of the Lottery operating activities. The amounts reported as Transfer to the State of Missouri reflect the Lottery's operating activities for the fiscal years.

Operating Revenues

	For the Year Ended June 30,		
	2011	2010	2009
Sales by Game			
Scratchers	\$666,315,849	\$638,062,954	\$636,574,616
Pull-Tabs	-	-	6,463,110
Draw Games			
Lotto	25,214,432	28,751,655	28,116,282
Pick 3	64,075,659	68,177,109	67,665,040
Powerball	83,319,805	112,711,538	120,677,712
Show Me Cash	29,503,742	26,711,262	22,168,807
Pick 4	29,557,118	29,117,093	26,434,016
Club Keno	65,302,751	55,192,089	57,378,494
Mega Millions	34,852,442	12,059,295	-
EZ Match	2,490,930	-	-
Raffle	-	-	1,717,410
Lucky Dough	45,678	1,081,490	1,256,408
Total Draw Games	<u>334,362,557</u>	<u>333,801,531</u>	<u>325,414,169</u>
Other	523,186	50,414	596,377
Total operating revenues	<u>\$1,001,201,592</u>	<u>\$971,914,899</u>	<u>\$969,048,272</u>

Lottery Sales By Product in millions

After increasing slightly in fiscal year 2010, ticket sales rose to a record high in fiscal year 2011. Overall sales increased by approximately \$28.8 million, or 3 percent, from fiscal year 2010 levels.



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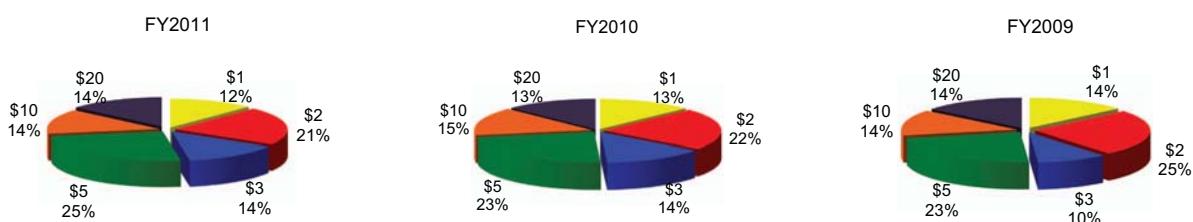
For the year ended June 30, 2011, Scratchers ticket sales increased by approximately \$28.2 million, or 4.43 percent, while Draw Game product sales increased slightly by \$561,000, or 0.17 percent.

For the fiscal year ended June 30, 2010, ticket sales increased by \$3.4 million, or 0.35 percent. Scratchers ticket sales increased by approximately \$1.5 million, or 0.23 percent, Draw Game product sales increased by approximately \$8.4 million, or 2.58 percent, with an offsetting decline in Pull-Tab sales of \$6.5 million. The Pull-Tab product line was discontinued in January of 2009, in response to continued declining sales of the product line and the need to redirect the Lottery's limited resources to other more successful product lines.

During fiscal year 2011, revenues from the sale of Lottery products were the highest in the 25-year history of the Lottery. As indicated in the financial statements, Scratchers tickets continue to lead the way to increased sales levels. During 2011, the \$5 price point sales grew approximately \$18.6 million over the sales of 2010. Strong traditional games, along with licensed property games and the 25th anniversary games, are the main contributing factors to the growth in this price point. The \$20 price point sales grew approximately \$10.8 million over the sales of 2010 and can be attributed to the introduction of a new \$20 game during the year. The \$3 price point sales grew approximately \$3.9 million over 2010 sales. The use of specialty themes extended-play games introduced in this price point is the main contributing factor for the increased sales. These increases, however, were offset by a decline in sales for the \$1, \$2 and \$10 price points of approximately \$1 million, \$0.1 million and \$3.8 million, respectively, over 2010 sales.

For the fiscal year ended June 30, 2010, the Scratchers ticket sales increase was primarily due to the \$3 price point tickets. The introduction of specialty extended-play games in this price point was the main contributing factor for the increase of approximately \$25.9 million in sales for this price point over fiscal year 2009. The \$5 and \$10 price points increased a combined total of \$8.8 million, which can be attributed to the introduction of new specialty-themed games. The increases were offset by decreases in the \$1, \$2 and \$20 price points of \$33.3 million combined over fiscal year 2009.

Scratchers Ticket Sales By Price Point



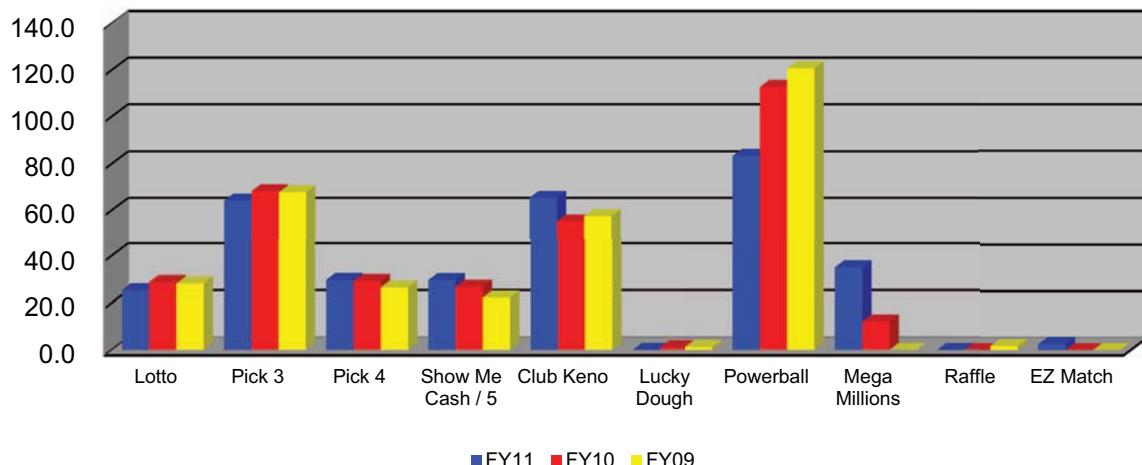
Total Draw Game sales increased only slightly in fiscal year 2011. A \$29.4 million, or 26 percent, decline in Powerball sales was partially offset by a \$22.8 million increase in Mega Millions sales. Powerball sales were down due to lower jackpot amounts. Mega Millions sales were up mainly because fiscal year 2011 reflected a full 12 months of sales as opposed to only five months of sales in fiscal year 2010. Club Keno sales were up \$10.1 million, while Show Me Cash and the new EZ Match option added increases of \$2.8 million and \$2.4 million, respectively, over fiscal year 2010. The increase in Club Keno sales can be attributed to Keno To Go (launched June 2010) and Club Keno drawings changing from every five minutes to every four minutes (July 2010). The Show Me Cash increase is due largely to a new jackpot funding mechanism incorporated in December 2010, which allows jackpots to grow more quickly. These increases were offset by \$3.5 million and \$4.1 million decreases in Lotto and Pick 3 sales, respectively.

Missouri State Lottery Commission
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For the Fiscal Years Ended June 30, 2011 and 2010

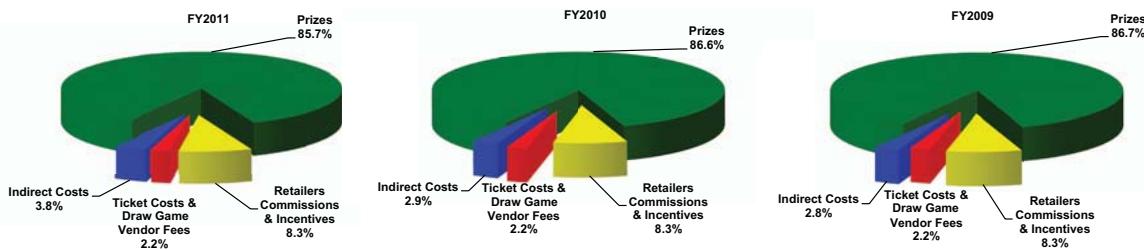
For the fiscal year 2010, the Draw Game sales increase was due primarily to the introduction of Mega Millions in January 2010, which contributed sales of \$12.1 million. This increase was offset by an \$8 million decrease in sales of the Powerball game. Show Me Cash sales increased by \$4.5 million as fiscal year 2010 was the first full fiscal year with the redesigned game change from a static jackpot amount to a rolling jackpot amount.

**Draw Game Sales By Game
 in millions**



Operating Expenses

	For the Year Ended June 30,		
	2011	2010	2009
Direct Expenses:			
Prizes	\$639,010,195	\$628,057,994	\$629,276,635
Retailer commissions and incentives	61,850,265	59,900,383	60,109,568
Tickets	7,995,056	7,583,111	7,782,756
Draw Game vendor fees	8,527,040	8,523,520	8,294,792
Other Operating Expenses:			
Advertising	7,943,537	1,850,163	1,236,819
Wages and benefits	9,831,552	9,946,081	9,856,894
Other general expenses	9,873,506	8,009,882	8,376,605
Depreciation and amortization	1,039,869	1,003,231	996,475



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Direct Expenses

Most costs and expenses that comprise direct expenses are related to specific games and, thus, vary proportionately with the change in sales of the related game. However, some variability does occur due to the nature of some of the expenses and the activities, events and programs, which may occur during any period of time. These expenses include prize expenses, retailer commissions and incentives, Scratchers ticket printing costs and Draw Game vendor fees.

Of the Lottery's total operating expenses of \$746.1 million in fiscal year 2011, \$717.4 million, or 96.15 percent, are game-related, or direct, expenses. In fiscal year 2010, direct expenses were \$704.1 million, or 97.13 percent, of the total \$724.9 million total operating expenses for the year. In fiscal year 2009, direct expenses were 97.18 percent of total operating expenses.

Prize expense for fiscal year 2011 increased by approximately \$11 million, or 1.74 percent, while total ticket sales increased by 3 percent. In fiscal year 2010, prize expense decreased by approximately \$1.2 million, or 0.19 percent, while total ticket sales increased by 0.3 percent. The variance between the percentage increase in prize expense and sales reflects the effects of increasing the prize structure of the Scratchers products, while the random selection of winning numbers may result in deviations from expected results in a short-term period.

Retailer commissions and incentives in fiscal year 2011 increased by approximately \$2 million, or 3.26 percent. In fiscal year 2010, these expenses decreased by approximately \$0.2 million, or 0.35 percent. These categories and results more closely follow the sales trends than prize expense. Variations will occur due to additional promotional activity to promote selected games and the number of jackpots won during the year.

Scratchers ticket expenses increased in fiscal year 2011 by \$0.4 million or 5.43 percent. In fiscal year 2010, these expenses decreased by approximately \$0.2 million (2.6 percent), which reflects the effects of the utilization of fewer licensed property games during 2010.

Draw Game vendor fees remained flat in fiscal year 2011, which reflects the effects of stagnant Draw Game sales for the year. In fiscal year 2010, this expense category increased by \$0.2 million, or 2.76 percent, in direct response to the increase in Draw Game sales for the year. The annual variances in this category will not exactly mirror the percentage change in sales, as the level of free and promotional tickets, as well as any system performance credits, will affect the actual annual expense amount.

Other Operating Expenses

Other operating expenses include advertising, personal services, fringe benefits, marketing and promotional expenses, utilities and facility costs, communication services and other administrative costs. The Lottery is subject to the budgetary and appropriation process of the State of Missouri. Management develops budgets for these expenses, within the total amounts appropriated by the State, based upon current economic conditions, business plans and market conditions, and actual results are continuously monitored to ensure that overall business objectives are met in the most effective and efficient manner. In fiscal year 2011, other operating expenses increased by \$7.9 million, or 37.86 percent, due to \$8 million in additional advertising appropriated by the General Assembly.

The level of depreciation and amortization expenses is generally a function of capital asset acquisition activity. A significant portion of the Lottery's vehicle fleet has been replaced during the last three years, as well as necessary upgrades, replacements and additions of computer equipment and related items, resulting in increased depreciation and amortization expenses for fiscal years 2011 and 2010.

Missouri State Lottery Commission
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Management's Discussion and Analysis (Unaudited)
For the Fiscal Years Ended June 30, 2011 and 2010

Nonoperating Revenues (Expenses)

	For the Year Ended June 30,		
	2011	2010	2009
Interest	\$151,545	\$310,040	\$731,222
Unclaimed prizes	9,853,309	12,318,398	12,403,901
Net increase (decrease) in investments held for grand-prize winners	1,258,170	4,560,063	4,365,372
Amortization of grand-prize winner liability	(2,904,666)	(3,381,475)	(3,861,661)
Gain (loss) on capital asset disposal	43,687	3,739	(26,702)
Transfers from State of Missouri	-	-	60,481
Transfers to State of Missouri	(265,179,113)	(259,672,711)	(256,286,630)

The Lottery earns interest on its share of the common cash pool with the State Treasurer's Office, as well as interest on an imprest fund account utilized to pay prizes. Interest is also earned on funds receivable from the Multi-State Lottery Association (MUSL). The significant decrease in interest earnings for fiscal year 2011 reflects the effects of the market conditions as interest rates declined substantially during the year.

The Lottery retains prize money if a claim for the prize is not made within a 180-day claim period. In fiscal year 2011, the level of unclaimed prizes decreased by \$2.5 million over fiscal year 2010. This line item fluctuates considerably from year to year, depending on the timing of Scratchers game closings and the unpredictability of prizes going unclaimed.

The net increase (decrease) in investments held for grand-prize winners represents the net market value change. Amortization of the grand-prize winner liability represents the accretion of interest to the securities held to maturity to fund the grand-prize winner payments.

As to the gain or loss from the disposal of capital assets, the variances generally reflect the effects of the number of vehicles that were sold during each fiscal year. In fiscal year 2011, nine vehicles were sold, in fiscal year 2010, three vehicles were sold, and in fiscal year 2009, nine vehicles were sold. The net loss in fiscal year 2009 was primarily the result of writing off certain equipment related to the Pull-Tab product line, which was discontinued during the year.

All net proceeds are transferred to the Lottery Proceeds Fund for Education. Net proceeds for fiscal year 2011 increased \$5.5 million, or 2.1 percent, from fiscal year 2010. For fiscal year 2010, proceeds increased \$3.4 million, or 1.3 percent, from fiscal year 2009. The Governor's Office and the Legislature determine where these funds will be expended within the state's public institutions of elementary, secondary and higher education.

Capital Assets and Long-Term Debt

The Lottery's capital assets consist of land, buildings, vehicles, computers and software, and other equipment. Capital assets are not a significant part of the Lottery's total assets. Additional detailed information on capital assets can be found in Note 6 to the financial statements.

The Lottery has no long-term liabilities other than the long-term annuitized payments to Lottery winners and deferred transfers to the State of Missouri. Additional detailed information on long-term liabilities may be found in Note 11 to the financial statements.

Missouri State Lottery Commission
(An Enterprise Fund of the State of Missouri)

Management's Discussion and Analysis (Unaudited)
For the Fiscal Years Ended June 30, 2011 and 2010

Contacting the Lottery's Financial Management

This management discussion and analysis report is designed to provide Missouri citizens, government officials, players, retailers and other interested parties reliable financial information and an explanation of the Lottery's financial activities for the years ended June 30, 2011 and 2010. If you have questions about this report or need additional information, contact the Missouri State Lottery Commission, Financial Accounting Section, P.O. Box 1603, Jefferson City, Missouri 65109-1603.

Missouri State Lottery Commission
 (An Enterprise Fund of the State of Missouri)

Statements of Net Assets As of June 30, 2011 and 2010

	2011	2010
Current Assets:		
Cash and cash equivalents	\$ 28,039,576	\$ 22,157,718
Investments held for grand-prize winners	8,609,476	10,553,992
Accounts receivable, net of allowances for returns	49,769,176	44,491,681
Other receivables	133,288	65,264
Prepaid expenses	166,464	158,494
Total current assets	<u>86,717,980</u>	<u>77,427,149</u>
Noncurrent Assets:		
Capital assets:		
Capital assets not being depreciated	634,758	485,326
Capital assets	14,157,716	13,642,647
Accumulated depreciation	<u>(11,427,747)</u>	<u>(10,669,492)</u>
Investments held for grand-prize winners	3,364,727	3,458,481
Total noncurrent assets	<u>47,260,330</u>	<u>54,617,645</u>
Total assets	<u>137,343,037</u>	<u>135,503,275</u>
Current Liabilities:		
Accounts payable	84,437	81,511
Due to Lottery Proceeds Fund	27,687,264	21,833,442
Accrued prize liabilities	47,014,403	41,695,520
Grand-prize winner liabilities	8,614,000	10,560,000
Other accrued liabilities	<u>3,663,342</u>	<u>3,598,307</u>
Total current liabilities	<u>87,063,446</u>	<u>77,768,780</u>
Long-term Liabilities:		
Due to Lottery Proceeds Fund	3,023,784	3,122,858
Grand-prize winner liabilities	<u>40,953,070</u>	<u>46,662,404</u>
Total long-term liabilities	<u>43,976,854</u>	<u>49,785,262</u>
Total liabilities	<u>131,040,300</u>	<u>127,554,042</u>
Net Assets:		
Invested in capital assets	3,364,727	3,458,481
Unrestricted	<u>(3,364,727)</u>	<u>(3,458,481)</u>
Restricted through Constitutional provisions	<u>6,302,737</u>	<u>7,949,233</u>
Total net assets	<u>\$ 6,302,737</u>	<u>\$ 7,949,233</u>

See accompanying notes to the basic financial statements.

Missouri State Lottery Commission
 (An Enterprise Fund of the State of Missouri)

Statements of Revenues, Expenses and Changes In Net Assets
For The Years Ended June 30, 2011 and 2010

	2011	2010
Operating Revenues:		
Scratchers ticket sales	\$ 666,315,849	\$ 638,062,954
Draw Game ticket sales	334,362,557	333,801,531
Total sales	1,000,678,406	971,864,485
Other	523,186	50,414
Total operating revenues	<u>1,001,201,592</u>	<u>971,914,899</u>
Operating Expenses:		
Scratchers prizes	456,079,511	441,530,646
Draw Game prizes	182,930,684	186,527,348
Scratchers retailer commissions and incentives	42,190,539	40,344,338
Draw Game retailer commissions and incentives	19,659,726	19,556,045
Cost of tickets sold	16,522,096	16,106,631
Advertising	7,943,537	1,850,163
Wages and benefits	9,831,552	9,946,081
Other general and administrative	9,873,506	8,009,882
Depreciation	1,039,869	1,003,231
Total operating expenses	<u>746,071,020</u>	<u>724,874,365</u>
Operating income	<u>255,130,572</u>	<u>247,040,534</u>
Nonoperating Revenues (Expenses):		
Interest income	151,545	310,040
Unclaimed prizes	9,853,309	12,318,398
Net increase in the fair value of investments held for grand-prize winners	1,258,170	4,560,063
Amortization of grand-prize winner liability	(2,904,666)	(3,381,475)
Gain on disposal of capital assets	43,687	3,739
Transfers to State of Missouri Lottery Proceeds Fund	(265,179,113)	(259,672,711)
Total nonoperating revenues (expenses)	<u>(256,777,068)</u>	<u>(245,861,946)</u>
Changes in net assets	(1,646,496)	1,178,588
Total Net Assets, beginning of year	<u>7,949,233</u>	<u>6,770,645</u>
Total Net Assets, end of year	<u>\$ 6,302,737</u>	<u>\$ 7,949,233</u>

See accompanying notes to the basic financial statements.

Missouri State Lottery Commission
 (An Enterprise Fund of the State of Missouri)

Statements of Cash Flows
For The Years Ended June 30, 2011 and 2010

	2011	2010
Cash Flows From Operating Activities:		
Cash received from retailers and others	\$ 995,856,073	\$ 965,515,045
Cash paid for prizes	(634,398,003)	(626,244,208)
Cash paid for retailer commissions	(61,735,559)	(59,882,155)
Cash paid for employee services	(9,873,782)	(9,970,908)
Cash paid for other expenses	<u>(34,351,625)</u>	<u>(25,991,300)</u>
Net cash provided by operating activities	<u>255,497,104</u>	<u>243,426,474</u>
Cash Flows From Noncapital Financing Activities:		
Transfers to State of Missouri	<u>(259,424,365)</u>	<u>(255,030,946)</u>
Cash Flows From Capital and Related Financing Activities:		
Purchases of capital assets	(947,953)	(1,019,082)
Proceeds from sale of capital assets	<u>45,527</u>	<u>39,122</u>
Net cash used for capital and related financing activities	<u>(902,426)</u>	<u>(979,960)</u>
Cash Flows From Investing Activities:		
Proceeds from maturity of investments	10,560,000	11,594,000
Interest received	<u>151,545</u>	<u>310,040</u>
Net cash provided by investing activities	<u>10,711,545</u>	<u>11,904,040</u>
Net increase (decrease) in cash and cash equivalents	5,881,858	(680,392)
Cash and Cash Equivalents, beginning of year	22,157,718	22,838,110
Cash and Cash Equivalents, end of year	\$ 28,039,576	\$ 22,157,718
Reconciliation of Operating Income To Net Cash Provided By Operating Activities:		
Operating income	\$ 255,130,571	\$ 247,040,534
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,039,869	1,003,231
Unclaimed prizes	9,853,309	12,318,398
Payments to grand-prize winners	<u>(10,560,000)</u>	<u>(11,594,000)</u>
Changes in operating assets and liabilities:		
(Increase) in accounts receivable, net	(5,277,495)	(6,421,736)
(Increase) decrease in other receivables	(68,024)	21,881
(Increase) in prepaid expenses	(7,970)	(10,651)
Increase (decrease) in accounts payable and other accrued liabilities	67,961	(20,571)
Increase in accrued prize liabilities	<u>5,318,883</u>	<u>1,089,388</u>
Net cash provided by operating activities	<u>\$ 255,497,104</u>	<u>\$ 243,426,474</u>
Noncash Activities:		
Net increase in the fair value of investments held for grand-prize winners	\$ 1,258,170	\$ 4,560,063
Amortization of grand-prize winner liability	\$ 2,904,666	\$ 3,381,475

See accompanying notes to the basic financial statements.

Missouri State Lottery Commission
(An Enterprise Fund of the State of Missouri)

Notes To The Basic Financial Statements
June 30, 2011 and 2010

1. Summary of Significant Accounting Policies:

The Missouri State Lottery Commission (the Lottery) was created by the passage of a constitutional amendment on November 6, 1984 by the citizens of the State of Missouri. The Lottery is a Type III division assigned to the Missouri Department of Revenue as defined in Section 313.210 of the Missouri Revised Statutes. The Department of Revenue has no control, supervision or authority over the actions or decisions of the Lottery. The Lottery's Commission consists of five members appointed by the Governor with the advice and consent of the Senate. The day-to-day operations are administered by the executive director and administrative staff as designated by the Commission.

For financial reporting purposes, the Lottery is considered an enterprise fund of the State of Missouri. Additional disclosures related to Missouri's self-insurance funds, unemployment insurance compensation, state pension plans, post-employment benefits, and workers' compensation benefits are included in the State of Missouri's Comprehensive Annual Financial Report.

These financial statements include all Lottery activity and do not include any activity related to any other state agency or fund.

Basis of Presentation

The Lottery is accounted for as a proprietary, business-type activity enterprise fund. The financial statements of the Lottery have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Enterprise funds are used to account for activities that are financed and operated in a manner similar to private business enterprises where the costs of providing goods and services to the general public on a continuing basis are to be financed through user charges or where the periodic determination of net income is appropriate.

In reporting its financial activities, the Lottery applies all applicable private sector standards of accounting and financial reporting issued prior to November 30, 1989, to the extent that these standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). The Lottery has elected not to follow private sector guidance issued after this date.

Basis of Accounting

The term "basis of accounting" refers to when revenues, expenses and the related assets and liabilities are recognized in the accounts and reported in the financial statements. The term "measurement focus" refers to what is being measured. The financial statements are prepared on the accrual basis of accounting and on an economic resources measurement focus in accordance with GAAP.

The Lottery distinguishes operating revenues and expenses from nonoperating items. The principal operating revenues of the Lottery primarily consist of sales from Scratchers and Draw Game tickets. Operating expenses primarily consist of payments to prize winners, commissions to retailer agents, payments to vendors and employees, and depreciation. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Revenue Recognition

Sales of Scratchers tickets are made to licensed retail sales outlets with the right of return. Ticket sales are recognized upon the sale of tickets to licensed retailers and are valued at the sale price to the player. Allowances of approximately \$1,036,000 and \$1,015,000 at June 30, 2011 and 2010, respectively, have been established for estimated tickets to be returned by retailers.

Missouri State Lottery Commission
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Notes To The Basic Financial Statements
June 30, 2011 and 2010

Revenue Recognition (continued)

Sales of Draw Game lottery tickets are generated by the semiweekly Lotto, Powerball and Mega Millions games, and the daily Club Keno, Lucky Dough (discontinued July 2010), Show Me Cash, EZ Match (added March 2011), Pick 4 and Pick 3 games. Sales of Draw Game lottery tickets are made through licensed retail sales outlets via Draw Game terminals maintained by the retailers. Ticket sales are recognized at the time the player purchases a ticket from the retailer.

Operating revenues are presented net of sales returns, cancellations and promotional tickets of \$34,876,825 and \$32,812,363 for the years ended June 30, 2011 and 2010, respectively.

Prizes

Expenses for Draw Game lottery ticket prizes are recorded based on a minimum of 45 percent of Draw Game lottery ticket sales. This amount is recognized and accrued as prize liability. Actual prizes paid are treated as a reduction of the prize liability.

Lotto grand-prize winners have the choice of receiving their prize in 25 annual installments or a portion of the prize in one lump-sum payment. Powerball grand-prize winners have the choice of receiving their prize in 30 annual installments or a portion of the prize in one lump-sum payment. Mega Millions grand-prize winners have the choice of receiving their prize in 26 annual installments or a portion of the prize in one lump-sum payment.

Expenses for Scratchers ticket prizes are recorded based upon the unique, predetermined prize structure for each game and are accrued as tickets are sold to the retailer.

Unclaimed Prizes

State statutes require that unclaimed prize monies be retained by the Lottery for the person entitled thereto for 180 days after the time the prize was awarded. If no claim is made for the prize within such time, the prize money reverts to the Lottery. Effective July 1, 2000, at the directive of the State of Missouri, the Lottery transfers to the Lottery Proceeds Fund all prizes that remain unclaimed. During the years ended June 30, 2011 and 2010, unclaimed prizes in the amount of approximately \$9,853,000 and \$12,318,000, respectively, were transferred to the Lottery Proceeds Fund. For the years ended June 30, 2011 and 2010, this amount has been included as nonoperating revenue on the statements of revenues, expenses and changes in net assets with a corresponding amount included as a transfer to the State of Missouri.

Cash and Cash Equivalents

For purposes of the statements of cash flows, cash and cash equivalents consist of cash in banks, repurchase agreements and funds on deposit with the State Treasurer. The Lottery considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Investments Held for Grand-Prize Winners

Since March 1990, the Lottery has purchased U.S. Treasury Zero Coupon Bonds to fund future payments under grand-prize winner prize claims. The maturities of these bonds approximate deferred grand-prize annuity installment amounts and due dates. The securities purchased are held in the Lottery's name in safekeeping by the Federal Reserve Bank in a separate account. The investments in these securities are carried at fair value based on quoted market prices.

Missouri State Lottery Commission
(An Enterprise Fund of the State of Missouri)
Notes To The Basic Financial Statements
June 30, 2011 and 2010

Retailer Fees

Licensed retailers are charged a fee for the right to sell lottery tickets. Additionally, certain retailers pay an annual fee in lieu of obtaining an insurance bond. Such fees are used to offset uncollectible accounts receivable from retailers. The Lottery has not established an allowance for bad debt as this amount has been determined to be immaterial to the accounts receivable balance.

Capital Assets

Property and equipment greater than \$1,000 are carried at cost, less accumulated depreciation. Property and equipment received as settlement for liquidated damages are recorded at fair value on the date received. Depreciation is computed on the straight-line method over the estimated lives of the related assets, which range from three to fifteen years for autos, computers, equipment, and other assets and nineteen years for buildings.

When assets are retired or otherwise disposed, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in nonoperating revenues and expenses for the period.

Net Assets

Restricted net assets represent the unrealized gains or losses on investments held for grand-prize winners. Certain investments are reported at fair value with gains and losses reflected in the statement of revenues, expenses and changes in net assets. As required by the Missouri Constitution and state statutes, the Lottery uses investments only to fund its annuity prize obligations and intends to hold the investments to maturity. Market gains or losses represent temporary fluctuations and are not recognized in the calculation of the amounts due to the Lottery Proceeds Fund.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Due to Lottery Proceeds Fund

All income before transfers of the Lottery, except for the net increase in the fair value of investments held for grand-prize winners and amortization of grand-prize winner liabilities, as described in the accompanying statements of revenues, expenses and changes in net assets, accrues to the benefit of the State of Missouri. Transfers are made to the Lottery Proceeds Fund, which shall be appropriated by the State solely for the institutions of public elementary, secondary and higher education.

Transfers are made monthly and are based on estimated net income before transfers. A portion of the liability to the Lottery Proceeds Fund, equal to the net book value of capital additions after September 1, 1988, and all amounts receivable from the Multi-State Lottery Association, is deferred and is not subject to current transfers.

Missouri State Lottery Commission
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Compensated Absences

Under the terms of the Lottery's personnel policy, employees are granted vacation and sick leave in varying amounts, based upon length of service. In the event of termination or separation, an employee is generally paid for accumulated vacation up to 240 hours if in service for less than ten years; 288 hours for service between ten and fifteen years; and 336 hours if service exceeds fifteen years. Accordingly, it is the Lottery's policy to record vacation pay as an expense as it is earned. The amount of earned but unused accumulated vacation is included as an accrued liability in the accompanying financial statements. Retiring employees receive an additional month of credited service for every twenty-one days of accumulated sick leave on the date of termination. Credited service is used to calculate retirement benefits administered by the Missouri State Employees Retirement System. The amount of earned but unused sick leave has no material financial effect on the Lottery.

Risk Management

The Lottery's risk management activities for workers' compensation and unemployment are recorded in the Workers' Compensation Fund and the Employment Security Fund, funds of the State of Missouri. The Lottery reimburses these funds for actual disbursements made on the Lottery's account.

Employees are offered various health insurance coverage programs administered by the Missouri Consolidated Health Care Plan (MCHCP). The Lottery contributes a fixed monthly payment for each covered employee to MCHCP as appropriated by the General Assembly of the State of Missouri.

The Lottery's major assets including data processing equipment, buildings and business interruption are insured by a third-party carrier maintained by the Office of Risk Management.

There were no significant reductions in insurance coverage from the prior year. Insurance settlements did not exceed insurance coverage in the past three years.

Budgetary Authority

The Lottery annually submits a request for appropriation through the budgetary process of the State of Missouri. All expenses of the Lottery are subject to the State of Missouri appropriation process.

Marketing, Advertising and Promotion

The Lottery expenses the costs of marketing, advertising and promotion as they are incurred.

Subsequent Events

The Lottery has performed a review of events subsequent to the statement of net assets date through October 17, 2011, the date the financial statements are available to be issued.

2. Statutory Requirements:

Missouri statutes provide that a minimum of 45 percent of the money received from the sale of lottery tickets shall be allocated to prizes. The costs of operating the Lottery, including all commissions to retailers, promotional costs, and all other administrative expenditures, are appropriated by the General Assembly of the State of Missouri.

The Lottery receives certain services for no charge from other Missouri state government agencies. Tax clearance and driver's license checks are provided by the Department of Revenue. The Office of Administration provides certain services to process expenditures and payroll for the Lottery.

Missouri State Lottery Commission
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3. Cash and Cash Equivalents:

Cash, other than petty cash and the imprest fund, is part of the common cash pool in the State Treasury. The State of Missouri invests such cash in excess of what is necessary to meet current obligations. The fair value in the common cash pool is the same as the value of the pool shares. At June 30, 2011 and 2010, the Lottery's share in the State's common cash pool was \$19,481,161 and \$16,160,054, respectively. At June 30, 2011 and 2010, the book balance of the imprest fund was \$8,551,015 and \$5,991,826, respectively, and the bank balance was \$9,132,570 and \$8,345,060, respectively.

Collateral is required by state statutes for demand deposits and certificates of deposit. The fair value of collateral must equal 100 percent of deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral are governed by state statute and include U.S. government and U.S. agency bonds and securities, general obligation bonds of any of the fifty states, general obligation bonds of any Missouri county and certain cities and special districts, and revenue bonds of certain Missouri agencies. Written custodial agreements are required which provide, among other things, that the collateral be held separate from the assets of the custodial bank.

Custodial credit risk is the risk that, in the event of a bank failure, the Lottery's deposits may not be returned to it. The Lottery does not have a deposit policy for custodial credit risk. The Lottery's imprest fund was fully collateralized by FDIC insurance and pledged collateral at June 30, 2011 and 2010. Because the Lottery's share of the State's Treasury is a pooled investment, the balance of this account is not subject to custodial credit risk.

4. Investments Held For Grand-Prize Winners:

As provided for by Article III, Section 39(b) of the Missouri Constitution, the Lottery purchases United States Treasury Zero Coupon Bonds for the specific purpose of funding future grand-prize winner prize claims. These investments are carried at fair value in the amounts of \$55,869,806 and \$65,171,637 at June 30, 2011 and 2010, respectively. The maturity value of securities held at June 30, 2011 and 2010 was \$68,051,000 and \$78,611,000, respectively.

At June 30, 2011 and 2010, the Lottery had the following investments:

Investment Type	Fair Value	Investment Maturities (In Years)			
		Less Than 1	1-5	6-10	More Than 10
United States Treasury Zero Coupon Bonds					
June 30, 2011	\$55,869,806	\$8,609,476	\$23,139,773	\$12,772,754	\$11,347,803
June 30, 2010	\$65,171,637	\$10,553,992	\$26,766,232	\$14,461,470	\$13,389,943

Investments in prize annuities are subject to changes in fair value due to interest rate risk. However, to satisfy the annual installment obligations to prize winners, these bonds are held to maturity. The fair value at maturity is the face value of the bonds, regardless of the changes in value during the time that the investments are outstanding.

Missouri State Lottery Commission
 (An Enterprise Fund of the State of Missouri)

Notes To The Basic Financial Statements
June 30, 2011 and 2010

5. Draw Game Ticket Sales:

Draw Game ticket sales for the years ended June 30th consist of the following:

	2011	2010
Lotto	\$ 25,214,432	\$ 28,751,655
Pick 3	64,075,659	68,177,109
Powerball	83,319,805	112,711,538
Show Me Cash	29,503,742	26,711,262
Pick 4	29,557,118	29,117,093
Club Keno	65,302,751	55,192,089
Mega Millions	34,852,442	12,059,295
EZ Match	2,490,930	-
Lucky Dough	45,678	1,081,490
	<u>\$ 334,362,557</u>	<u>\$ 333,801,531</u>

6. Capital Assets:

The changes in capital assets consist of the following:

	June 30, 2010	Increases	Decreases	June 30, 2011
Capital assets not being depreciated:				
Land	\$ 352,973	\$ -	\$ -	\$ 352,973
Construction in progress	132,353	281,785	(132,353)	281,785
Total capital assets not being depreciated	<u>485,326</u>	<u>281,785</u>	<u>(132,353)</u>	<u>634,758</u>
Capital assets being depreciated:				
Buildings	4,807,275	132,353	-	4,939,628
Computers	5,276,908	454,356	(61,699)	5,669,565
Equipment	2,346,055	2,400	(17,433)	2,331,022
Automobiles	1,167,409	209,412	(204,320)	1,172,501
Other	45,000	-	-	45,000
Total capital assets being depreciated	<u>13,642,647</u>	<u>798,521</u>	<u>(283,451)</u>	<u>14,157,716</u>
Less accumulated depreciation for:				
Buildings	(3,548,465)	(156,745)	-	(3,705,210)
Computers	(4,021,126)	(636,603)	61,699	(4,596,030)
Equipment	(2,056,341)	(93,181)	17,433	(2,132,089)
Automobiles	(1,021,233)	(151,840)	202,482	(970,591)
Other	(22,327)	(1,500)	-	(23,827)
Total accumulated depreciation	<u>(10,669,492)</u>	<u>\$ (1,039,869)</u>	<u>\$ 281,614</u>	<u>(11,427,747)</u>
Total capital assets being depreciated, net	<u>2,973,155</u>			<u>2,729,969</u>
Capital assets, net	<u>\$ 3,458,481</u>			<u>\$ 3,364,727</u>

Missouri State Lottery Commission
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Notes To The Basic Financial Statements
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6. Capital Assets: (continued)

	June 30, 2009	Increases	Decreases	June 30, 2010
Capital assets not being depreciated:				
Land	\$ 352,973	\$ -	\$ -	\$ 352,973
Construction in progress	- -	132,353	- -	132,353
Total capital assets not being depreciated	<u>352,973</u>	<u>132,353</u>	<u>- -</u>	<u>485,326</u>
Capital assets being depreciated:				
Buildings	4,807,275	- -	- -	4,807,275
Computers	4,831,889	707,999	(262,980)	5,276,908
Equipment	2,272,680	178,730	(105,355)	2,346,055
Automobiles	1,224,320	- -	(56,911)	1,167,409
Other	45,000	- -	- -	45,000
Total capital assets being depreciated	<u>13,181,164</u>	<u>886,729</u>	<u>(425,246)</u>	<u>13,642,647</u>
Less accumulated depreciation for:				
Buildings	(3,399,020)	(149,445)	- -	(3,548,465)
Computers	(3,673,895)	(574,828)	227,597	(4,021,126)
Equipment	(2,082,999)	(78,697)	105,355	(2,056,341)
Automobiles	(879,383)	(198,761)	56,911	(1,021,233)
Other	(20,827)	(1,500)	- -	(22,327)
Total accumulated depreciation	<u>(10,056,124)</u>	<u>\$ (1,003,231)</u>	<u>\$ 389,863</u>	<u>(10,669,492)</u>
Total capital assets being depreciated, net	<u>3,125,040</u>			<u>2,973,155</u>
Capital assets, net	<u>\$ 3,478,013</u>			<u>\$ 3,458,481</u>

7. Pension Plan:

The Lottery participates in the Missouri State Employees' Retirement System (MOSERS) (the Plan), a single-employer defined benefit public employees' retirement plan covering all the employees of the State of Missouri. The Plan is administered by the MOSERS Board of Trustees in accordance with Chapter 104 of the Revised Statutes of Missouri. Substantially all full-time employees of the Lottery are covered by the Plan. MOSERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to: Missouri State Employees' Retirement System, 907 Wildwood Drive, P.O. Box 209, Jefferson City, Missouri 65102, by calling (800) 827-1063 or by visiting www.mosers.org.

The Plan has two benefit structures known as MSEP (closed plan) and MSEP 2000. The MSEP covers all full-time employees hired before July 1, 2000, who are not covered under another state-sponsored retirement plan. MSEP 2000 covers all full-time employees hired on or after July 1, 2000 and before January 2011. Employees hired on or after January 1, 2011, will be eligible for membership in the MSEP 2011 tier of the MSEP 2000. Some provisions of this new membership tier include 4% employee contributions of pre-tax wages, 5-year vesting will be increased to 10-year vesting, the "Rule of 80" will be increased to the "Rule of 90", and the age for early retirement for general employees will be increased from age 57 to age 62. Members of the closed plan have the option at retirement to choose between the benefit structure of the MSEP or MSEP 2000.

The Plan provides retirement, survivor and disability benefits to its members. The Plan cannot be terminated.

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Notes To The Basic Financial Statements
June 30, 2011 and 2010

7. Pension Plan: (continued)

Retirement eligibility requirements prior to the MSEP 2011 tier of the Plan are as follows:

<u>MSEP</u>	<u>MSEP 2000</u>
<i>Age 65 and active with 4 years of service</i>	<i>Age 62 with 5 years of service</i>
<i>Age 65 with 5 years of service</i>	<i>Age 48 with age and service equaling 80 or more (Rule of 80)</i>
<i>Age 60 with 15 years of service</i>	<i>Employees may retire early at age 57 with at least 5 years of service with reduced benefits</i>
<i>Age 48 with age and service equaling 80 or more (Rule of 80)</i>	<i>Employees do not contribute</i>
<i>Employees may retire early at age 55 with at least 10 years of service with reduced benefits</i>	
<i>Employees do not contribute</i>	

The State of Missouri is obligated by state law to make all required contributions to the Plan, which are made at an actuarially determined rate. The current rate of contribution for retirement and long-term disability is 13.81 percent and 0.495 percent of total payroll, respectively.

For fiscal years ended June 30, 2011, 2010 and 2009, the annual pension cost associated with Lottery employees was approximately \$990,000, \$934,000 and \$930,000, respectively, and was equal to 100 percent of the annual pension cost required to be contributed for those years.

8. Leases:

Operating Leases

The Lottery's regional facilities are held under operating lease agreements. The lease agreements for both the St. Louis and Springfield offices are under a one year agreement with four one-year renewal options starting July 1, 2009 and set to expire June 30, 2014. The Kansas City office is under a reduced rate agreement set to expire on October 31, 2011. Effective November 1, 2011 through December 31, 2012, the Kansas City lease agreement returns to the original amount. Annual rent expense for these facilities totaled approximately \$273,000 in fiscal 2011 and \$277,000 in 2010.

The Lottery leases instant ticket vending machines under an operating lease agreement. The lease agreement was set to expire June 30, 2012; however, an amendment dated August 3, 2011 extended the expiration to June 30, 2015. In addition to currently installed 24- and 4-bin machines, the amendment provides for an additional 450 Gemini instant ticket vending machines to be installed during fiscal year 2012. Leasing costs under the amendment change from a monthly lease rate per machine to a percentage of net weekly Draw Game sales. Annual lease expense for the instant ticket vending machines totaled approximately \$1,902,000 in fiscal 2011 and \$1,487,000 in 2010. The increase in vending machine lease expense from 2010 to 2011 is due to an additional 500 4-bin machines added to the existing contract in May 2010.

Future minimum lease payments under all non-cancelable leases having initial or remaining terms in excess of one year as of June 30, 2011 (including an estimated \$3,000,000 per year for vending machines, based on current Draw Games sales levels) are as follows:

2012	\$ 3,280,606
2013	3,228,898
2014	3,173,496
2015	3,000,000
	<u>\$ 12,683,000</u>

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Notes To The Basic Financial Statements
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9. Contractual Arrangements:

The Lottery maintains contractual arrangements with providers of goods and services critical to the Lottery's operations. Significant contracts include an agreement with the provider of the Lottery's Draw Game computer systems, agreements with producers of the Lottery's Scratchers games tickets, and an agreement for advertising services, among others. The contracts require the Lottery to compensate vendors for goods and services that meet stated quality standards. Scratchers game tickets are purchased on a percentage of sales bases. Scratchers tickets on hand in the Lottery's warehouse are held on a consignment basis and are not recorded as inventory.

The Lottery is a member of the Multi-State Lottery Association (MUSL) which consists of 33 state and district lotteries (member lotteries) and operates the Powerball game and the Mega Millions game. Under separate agreements between MUSL and each lottery, the member lotteries sell tickets for the Powerball game and remit 50 percent of sales to MUSL for payment of prizes. On January 31, 2010 the Lottery began selling the Mega Millions jackpot game as an historic cross-selling agreement between Mega Millions and Powerball. Member lotteries sell tickets for the Mega Millions game and currently remit 51.50 percent of sales to MUSL for payment of prizes. Member lotteries also fund MUSL's operating expenses based on allocations by MUSL.

Powerball grand-prize winners have the choice of receiving the prize in 30 annual installments or a portion of the prize in one lump-sum payment. Mega Millions grand-prize winners have the choice of receiving the prize in 26 annual installments or a portion of the prize in one lump-sum payment. Investment securities, with maturities that approximate all grand-prize winner payments due to winners of MUSL games, are maintained by MUSL. The investments and related prize liabilities for winners of these games from the State of Missouri are excluded from the accompanying financial statements. Future grand-prize winner payments of MUSL games due to winners in Missouri are approximately \$22,745,000 and \$30,175,000 as of June 30, 2011 and 2010, respectively.

The Lottery has contributed to a prize reserve fund and set prize reserve fund, separately maintained by MUSL, to protect MUSL members in case of unforeseen liabilities and to pay certain prizes associated with Powerball and Mega Millions, respectively. With certain restrictions, these fund balances are refundable to member lotteries upon termination of the member's agreement with MUSL or upon the disbanding of MUSL. At June 30, 2011 and 2010, the Lottery's portion of the prize reserve fund and set prize reserve fund for Powerball was approximately \$4,489,000 and \$4,529,000, respectively, and \$998,000 and \$1,487,000, respectively. At June 30, 2011 and 2010, the Lottery's portion of the prize reserve fund for Mega Millions was approximately \$514,000 and (\$49,000), respectively. The Lottery has charged amounts placed into the prize reserve funds to prize expense as the related sales have occurred. The reserve funds are not reflected on the Lottery's statements of net assets as of June 30, 2011 and 2010, respectively.

The Lottery has contributed to an account with MUSL which is used to pay certain operating expenses incurred by member lotteries for the Powerball game and the Mega Millions game. With certain restrictions, the balances in this account are refundable to the member lotteries upon termination of the member's agreement with MUSL or upon the disbanding of MUSL. At June 30, 2011 and 2010, the Lottery's portion of the balance of this account was \$12,030 and \$17,349, respectively, and is reported as a receivable.

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Notes To The Basic Financial Statements
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10. Amounts Held On Behalf of Grand-Prize Winners Liability:

The Lottery has an implied contract to make future installment payments to grand-prize winners, and as such, recognizes this as amounts held on behalf of grand-prize winners. Amounts due to grand-prize winners are carried at the estimated present value of the prizes that will eventually be awarded. The present value of these payments at June 30, 2011 and 2010 was \$49,567,070 and \$57,222,404 respectively. This is funded with the maturing U.S. Treasury Zero Coupon Bonds that are restricted for this purpose.

The balances of these maturities at June 30, 2011, are as follows:

Fiscal Year	Amount
2012	\$ 8,614,000
2013	7,417,000
2014	6,460,000
2015	5,084,000
2016	4,824,000
2017 through 2021	15,616,000
2022 through 2026	13,062,000
2027 through 2031	6,114,000
2032 through 2035	860,000
Total installment payments due	<u>68,051,000</u>
Less- Interest portion	<u>18,483,930</u>
	<u><u>\$ 49,567,070</u></u>

The Lottery has also purchased annuity contracts in the name of the prize winners from selected insurance companies to fund certain grand-prize claims. Because it is the intent of the Lottery that the insurance companies make future installment payments directly to each prize winner, neither the value of the annuities nor the value of the related future payments are reflected in the accompanying financial statements. The Lottery would assume liability for future payments if the insurance companies were to default on their payments; however, this possibility is remote and therefore no liability is recorded. Future payments to be made to grand-prize winners by these insurance companies totaled approximately \$5,800,000 and \$5,100,000 at June 30, 2011 and 2010, respectively.

11. Long-Term Liabilities:

The changes in long-term liabilities consist of the following:

	June 30, 2010	Additions	Reductions	June 30, 2011	Current Portion
Due to Lottery Proceeds Fund	\$ 24,956,300	\$265,179,113	\$259,424,365	\$ 30,711,048	\$ 27,687,264
Grand-prize winner liabilities	<u>57,222,404</u>	<u>2,904,666</u>	<u>10,560,000</u>	<u>49,567,070</u>	<u>8,614,000</u>
Total	<u>\$ 82,178,704</u>	<u>\$268,083,779</u>	<u>\$269,984,365</u>	<u>\$ 80,278,118</u>	<u>\$ 36,301,264</u>

	June 30, 2009	Additions	Reductions	June 30, 2010	Current Portion
Due to Lottery Proceeds Fund	\$ 20,314,535	\$259,672,711	\$255,030,946	\$ 24,956,300	\$ 21,833,442
Grand-prize winner liabilities	<u>62,621,040</u>	<u>6,195,364</u>	<u>11,594,000</u>	<u>57,222,404</u>	<u>10,560,000</u>
Total	<u>\$ 82,935,575</u>	<u>\$265,868,075</u>	<u>\$266,624,946</u>	<u>\$ 82,178,704</u>	<u>\$ 32,393,442</u>

Missouri State Lottery Commission
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Notes To The Basic Financial Statements
June 30, 2011 and 2010

12. Postretirement Benefits:

As a State agency, the Lottery participates in a cost-sharing multiple-employer defined benefit post-employment health care plan administered by the Missouri Consolidated Health Care Plan (MCHCP). Retirees who had medical insurance coverage for six months immediately prior to termination or state-sponsored medical insurance coverage since the effective date of the last enrollment period (or since first eligible), before they are eligible to retire, based on their plan's criteria, may continue coverage into retirement.

MCHCP medical insurance benefits are provided through self-funded preferred provider organizations (PPO), various health maintenance organizations (HMO), and self-funded HMOs. Generally, these include hospital, medical, mental health and substance abuse benefits and prescription drug benefits.

The Lottery's policy regarding retiree healthcare benefits is to pay the amounts billed through the State's fringe benefit rate on a pay-as-you-go basis. The Lottery has no obligation beyond the payment of the State's fringe benefit rate for retiree healthcare benefits. The State's policy is that the State is responsible for recording the annual required contribution and the actuarial accrued liability for the Lottery's retiree health care benefits in the State's government-wide financial statements.

13. Contingencies:

There are claims and/or lawsuits to which the Lottery is a party as a result of matters arising in the ordinary course of business. The final outcome of any claim or lawsuit is not presently determinable. Management does not anticipate the resolution of these matters to have a materially adverse effect on the financial condition of the Lottery.

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Statistical Section

(Unaudited)

Missouri State Lottery Commission Statistical Information Section

This section of the Missouri State Lottery Commission's comprehensive annual financial report presents detailed information as a supplement to the information presented in the financial statements and note disclosures to assist readers in assessing the Lottery's overall financial health.

Contents	Page
Financial Trends These schedules contain trend information from the current year and prior years' comprehensive annual financial reports to help a reader understand how the Lottery's financial performance and position have changed over time.	39
Revenue Capacity These schedules contain information to help the reader assess factors affecting the Lottery's ability to generate sales of lottery tickets. Scratchers ticket game strategies, such as price points and launch schedules, affect the selection and availability of products for sale at retail locations. Information for draw sales by game, included in the financial trends section, provides data about the various drawing based games that are available to the public. The Lottery's statewide retailer network determines the market exposure for Scratchers and Draw Games.	46
Demographic and Economic Information These schedules contain demographic and economic indicators to help a reader understand the environment in which the Lottery operates.	50
Operating Information These schedules contain information about the Lottery's organizational structure, financial performance indicators compared to other lotteries in the United States and capital asset information.	53
With the exception of information on retailers and sales for each region, statistical information is provided for the most recent ten years. In the future, data for this schedule will be accumulated and, in due course, the schedule will contain information for a ten-year period.	38

Financial Trends

Information for the Missouri State Lottery Commission for the last ten fiscal years, 2002 through 2011, is presented in the accompanying schedules and charts. The Missouri State Lottery Commission was created on November 6, 1984 by the passage of a constitutional amendment and began selling tickets in January 1986.

The following information is presented in the accompanying schedules and charts:

Revenue – includes sales, interest income, retailer fees and other income amounts. Interest income does not reflect interest from investments for Lotto payments.

Sales – reflects the face value of lottery tickets.

Retailer commission and incentives – includes the base commission and cashing, promotional and program incentive payments.

Prizes – reflects the liability incurred for payments to winners.

Ticket costs – includes the purchase cost of Scratchers and pull-tab tickets and payments to the Draw Game games service provider.

Administration – includes all operating expenses not included in prizes, retailer commissions and incentives or ticket costs.

Transfers to the State – reflects the transfer of net income, excluding unrealized gains on investments and amortization of grand-prize winner liability, to the Lottery Proceeds Fund for fiscal years 2002 through 2011. Transfers made during fiscal year 2011 include \$9,853,309 of unclaimed prizes. The Lottery Proceeds Fund is appropriated by the Missouri State General Assembly to the Department of Higher Education and the Department of Elementary and Secondary Education. Profits not yet transferred are shown on the balance sheet as a liability.

Expenses and transfers – includes prizes, retailer commissions and incentives, ticket costs and administration costs as described above, as well as transfers made to the state.

Unless otherwise noted, the source for the data used to prepare the following schedules and charts is the Financial Accounting Section of the Missouri State Lottery Commission.

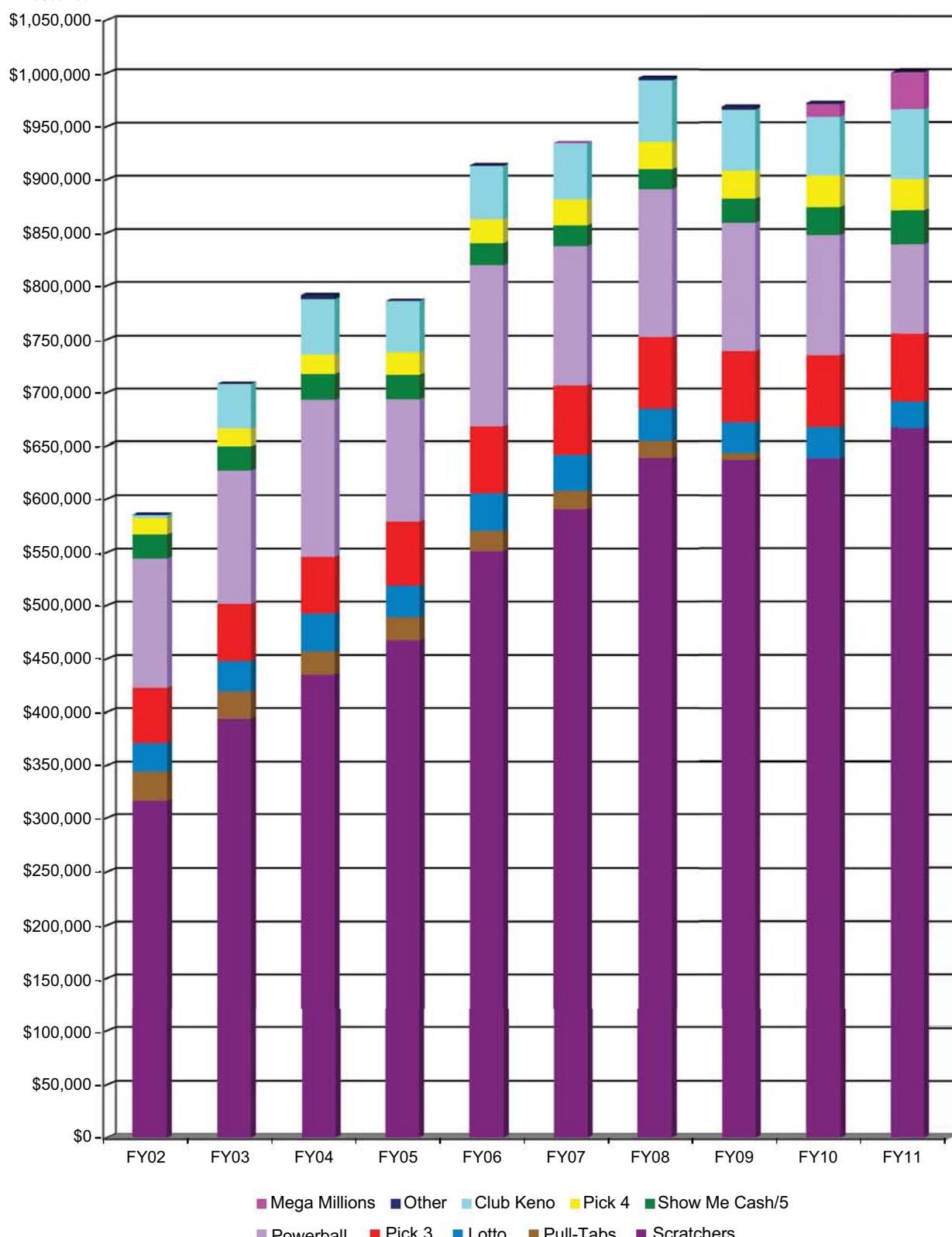
Missouri State Lottery Commission
Schedule of Changes in Net Assets and Schedule of Net Assets
Last Ten Fiscal Years
(Unaudited)

	2002	2003	2004	2005
Operating revenues				
Scratchers ticket sales	<u>\$316,397,488</u>	<u>\$393,981,254</u>	<u>\$434,791,673</u>	<u>\$467,326,093</u>
Draw Game ticket sales				
Lotto	27,030,491	28,736,839	35,015,934	30,311,403
Pick 3	51,785,842	53,569,248	53,946,082	60,558,754
Powerball	121,474,897	125,324,451	147,232,847	114,485,380
Show Me Cash	22,714,933	22,665,639	24,337,775	23,056,447
Pick 4	15,292,249	16,157,968	18,436,614	21,338,535
Club Keno	3,124,386	42,570,878	51,531,568	47,616,083
Mega Millions	-	-	-	-
EZ Match	-	-	-	-
Raffle	-	-	-	-
Xtra	-	-	4,014,945	173,848
Lucky Dough	-	-	-	-
Total draw game ticket sales	<u>241,422,798</u>	<u>289,025,023</u>	<u>334,515,765</u>	<u>297,540,450</u>
Pull-Tab ticket sales	<u>27,368,968</u>	<u>25,041,235</u>	<u>21,846,920</u>	<u>20,731,089</u>
Total sales	<u>585,189,254</u>	<u>708,047,512</u>	<u>791,154,358</u>	<u>785,597,632</u>
Other operating revenues	<u>615,041</u>	<u>539,609</u>	<u>638,392</u>	<u>340,957</u>
Total operating revenues	<u>585,804,295</u>	<u>708,587,121</u>	<u>791,792,750</u>	<u>785,938,589</u>
Operating Expenses				
Direct costs				
Prize expense	353,075,456	434,559,460	484,827,462	487,925,882
Retailer compensation	37,100,715	44,453,462	49,316,766	48,798,722
Ticket costs	13,289,487	16,712,029	18,341,746	17,543,004
Total direct costs	<u>403,465,658</u>	<u>495,724,951</u>	<u>552,485,974</u>	<u>554,267,608</u>
Administrative expenses	<u>29,832,679</u>	<u>26,561,873</u>	<u>22,619,483</u>	<u>21,430,609</u>
Total operating expenses	<u>433,298,337</u>	<u>522,286,824</u>	<u>575,105,457</u>	<u>575,698,217</u>
Operating Income	<u>152,505,958</u>	<u>186,300,297</u>	<u>216,687,293</u>	<u>210,240,372</u>
Nonoperating Revenues (Expenses)				
Interest income	756,413	382,523	470,448	571,049
Unclaimed prizes*	6,669,140	16,720,584	12,283,414	7,811,413
Net increase (decrease) in the fair value of investments	7,678,525	11,259,456	(1,546,223)	6,300,009
Amortization of grand prize winner liability	(5,617,431)	(5,473,304)	(5,255,750)	(5,259,106)
Gain (loss) on disposal of assets	106,956	62,857	(13,972)	19,876
Transfers to the state	(160,038,467)	(203,466,261)	(229,427,183)	(218,642,710)
Transfers from the state	-	-	-	-
Total nonoperating expenses	<u>(150,444,864)</u>	<u>(180,514,145)</u>	<u>(223,489,266)</u>	<u>(209,199,469)</u>
Changes In Net Assets				
Total Net Assets, beginning of year	<u>2,061,094</u>	<u>5,786,152</u>	<u>(6,801,973)</u>	<u>1,040,903</u>
Total Net Assets, end of year	<u>\$10,298,314</u>	<u>\$16,084,466</u>	<u>\$9,282,493</u>	<u>\$10,323,396</u>
* - effective July 1, 2000, at the directive of the State of Missouri, the Lottery transfers all unclaimed prizes to the Lottery Proceeds Fund				
Net Assets				
Invested in capital assets	\$5,912,800	\$4,986,696	\$4,151,722	\$3,295,311
Unrestricted	(5,912,800)	(4,986,696)	(4,151,722)	(3,295,311)
Restricted	<u>10,298,314</u>	<u>16,084,466</u>	<u>9,282,493</u>	<u>10,323,396</u>
Total net assets	<u>\$10,298,314</u>	<u>\$16,084,466</u>	<u>\$9,282,493</u>	<u>\$10,323,396</u>

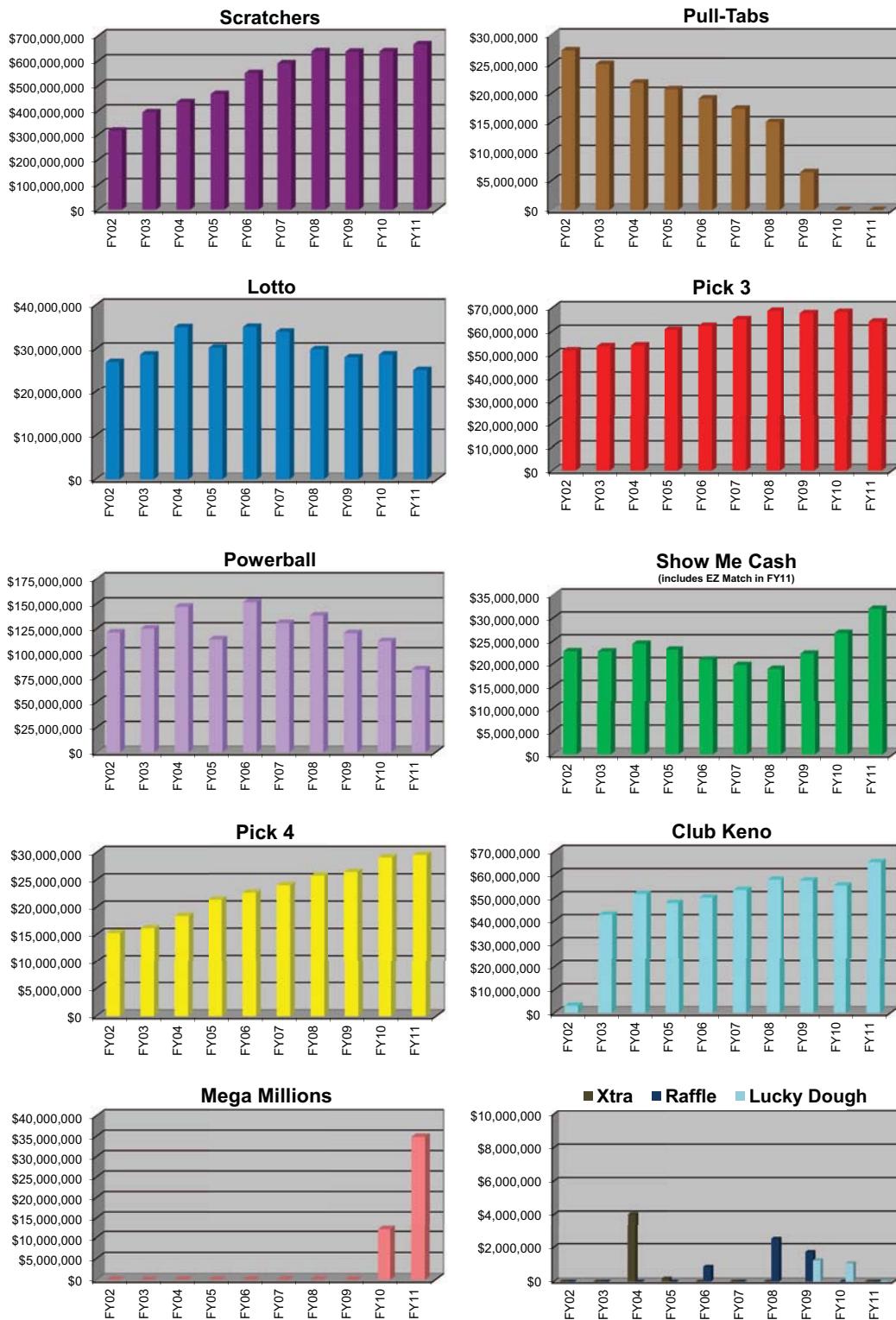
2006	2007	2008	2009	2010	2011
\$550,961,109	\$590,045,817	\$638,533,775	\$636,574,616	\$638,062,954	\$666,315,849
35,062,426	33,955,803	29,955,387	28,116,282	28,751,655	25,214,432
62,274,077	65,091,442	68,680,133	67,665,040	68,177,109	64,075,659
151,772,839	130,795,800	138,393,572	120,677,712	112,711,538	83,319,805
20,861,442	19,684,271	18,836,176	22,168,807	26,711,262	29,503,742
22,605,473	24,015,250	25,751,837	26,434,016	29,117,093	29,557,118
49,948,394	53,273,105	57,753,303	57,378,494	55,192,089	65,302,751
-	-	-	-	12,059,295	34,852,442
-	-	-	-	-	2,490,930
877,591	-	2,500,000	1,717,410	-	-
-	-	-	-	-	-
-	-	-	1,256,408	1,081,490	45,678
343,402,242	326,815,671	341,870,408	325,414,169	333,801,531	334,362,557
19,154,900	17,409,170	15,088,705	6,463,110	-	-
913,518,251	934,270,658	995,492,888	968,451,895	971,864,485	1,000,678,406
167,767	1,395,548	649,422	596,377	50,414	523,186
913,686,018	935,666,206	996,142,310	969,048,272	971,914,899	1,001,201,592
572,767,960	595,022,614	641,123,508	629,276,635	628,057,994	639,010,195
56,543,150	58,257,753	61,508,836	60,109,568	59,900,383	61,850,265
16,282,739	16,280,719	17,289,790	16,077,548	16,106,631	16,522,096
645,593,849	669,561,086	719,922,134	705,463,751	704,065,008	717,382,556
20,290,872	19,987,112	20,362,542	20,466,793	20,809,357	28,688,464
665,884,721	689,548,198	740,284,676	725,930,544	724,874,365	746,071,020
247,801,297	246,118,008	255,857,634	243,117,728	247,040,534	255,130,572
1,459,617	1,360,853	1,430,382	731,222	310,040	151,545
11,392,679	10,349,767	9,330,350	12,403,901	12,318,398	9,853,309
(1,424,646)	4,294,279	6,893,961	4,365,372	4,560,063	
(4,956,265)	(4,647,958)	(4,215,836)	(3,861,661)	(3,381,475)	(2,904,666)
15,142	54,077	37,679	(26,702)	3,739	43,687
(260,668,734)	(257,882,704)	(266,656,044)	(256,286,630)	(259,672,711)	(265,179,113)
-	-	-	60,481	-	-
(254,182,207)	(246,471,686)	(253,179,508)	(242,614,017)	(245,861,946)	(256,777,068)
(6,380,910)	(353,678)	2,678,126	503,711	1,178,588	(1,646,496)
10,323,396	3,942,486	3,588,808	6,266,934	6,770,645	7,949,233
\$3,942,486	\$3,588,808	\$6,266,934	\$6,770,645	\$7,949,233	\$6,302,737
\$3,068,609	\$3,411,563	\$3,923,538	\$3,478,013	\$3,458,481	\$3,364,727
(3,068,609)	(3,411,563)	(3,923,538)	(3,478,013)	(3,458,481)	(3,364,727)
3,942,486	3,588,808	6,266,934	6,770,645	7,949,233	6,302,737
\$3,942,486	\$3,588,808	\$6,266,934	\$6,770,645	\$7,949,233	\$6,302,737

**Missouri State Lottery Commission
Sales By Product
Last Ten Fiscal Years
(Unaudited)**

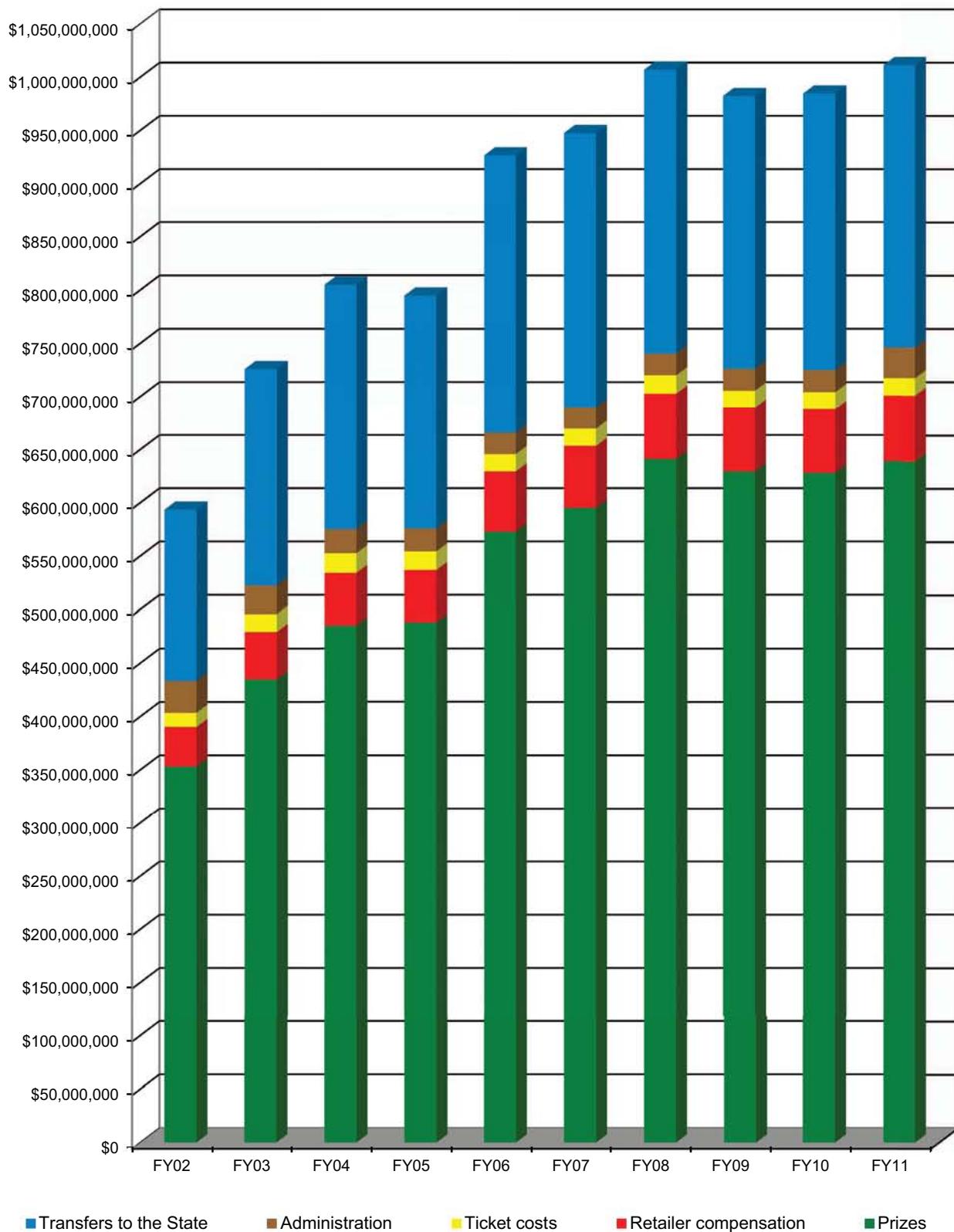
Thousands



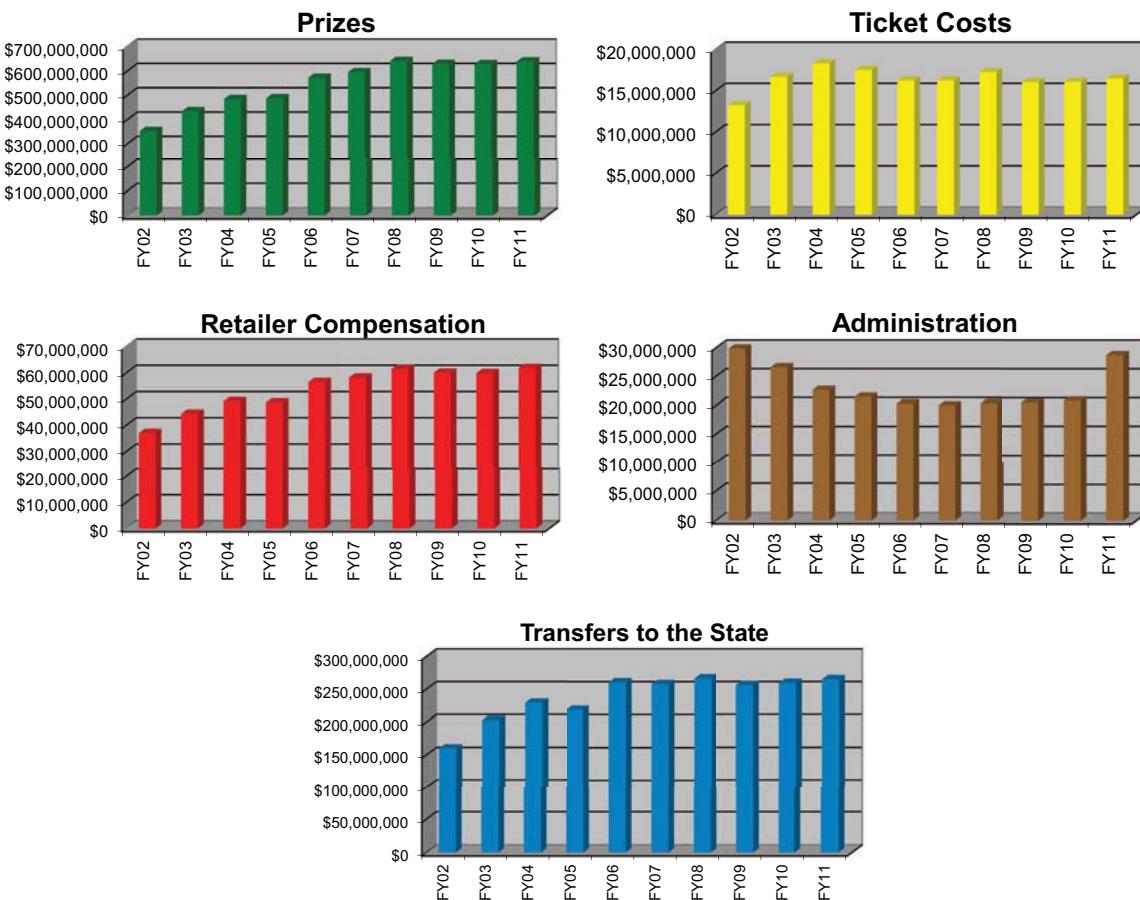
**Missouri State Lottery Commission
Sales By Fiscal Year By Product Line
Last Ten Fiscal Years
(Unaudited)**



**Missouri State Lottery Commission
Expenses and Transfers
Last Ten Fiscal Years
(Unaudited)**



**Missouri State Lottery Commission
Expenses and Transfers
Last Ten Fiscal Years
(Unaudited)**



Missouri State Lottery Commission
Schedule of Scratchers Ticket Game Launches and Sales By Price Point
Last Ten Fiscal Years
(Unaudited)

Price Point	2002	2003	2004	2005	2006
Number of Launches					
\$1	23	15	15	14	14
\$2	20	20	24	22	22
\$3	3	2	2	2	1
\$5	6	7	6	9	10
\$10	-	5	5	7	3
\$20	-	-	-	-	-
Total	<u>52</u>	<u>49</u>	<u>52</u>	<u>54</u>	<u>50</u>
Sales					
\$1	\$163,461,975	\$143,870,364	\$132,474,169	\$120,824,709	\$109,864,276
\$2	97,976,908	117,812,464	150,207,177	162,535,252	169,626,074
\$3	19,576,955	20,099,812	24,940,942	27,283,622	28,130,183
\$5	35,411,650	50,094,329	57,003,246	73,989,819	108,561,454
\$10	-	62,104,285	70,166,139	82,692,691	134,779,122
\$20	-	-	-	-	-
	<u>\$316,427,488</u>	<u>\$393,981,254</u>	<u>\$434,791,673</u>	<u>\$467,326,093</u>	<u>\$550,961,109</u>

2007	2008	2009	2010	2011	% of Total 2011
11	9	11	11	11	23.91%
19	18	15	14	14	30.43%
2	2	5	7	7	15.22%
9	9	10	8	11	23.91%
1	1	2	3	2	4.36%
-	1	1	1	1	2.17%
42	40	44	44	46	100.00%
\$99,694,829	\$85,622,427	\$88,731,681	\$82,671,825	\$81,643,988	12.25%
183,404,816	177,465,587	159,437,206	142,217,688	142,079,513	21.32%
32,647,121	35,194,190	62,411,862	88,327,022	92,204,540	13.84%
133,382,786	140,942,309	146,339,990	147,668,657	166,281,836	24.96%
140,916,265	134,285,251	88,918,424	96,437,335	92,587,827	13.90%
-	65,024,011	90,735,453	80,740,427	91,518,145	13.73%
\$590,045,817	\$638,533,775	\$636,574,616	\$638,062,954	\$666,315,849	100.00%

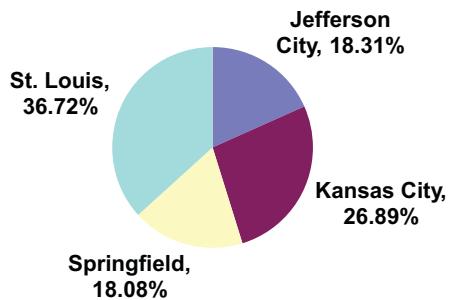
**Missouri State Lottery Commission
Schedule of Lottery Retailers and Sales By Region
Fiscal Years Ending June 30, 2006, 2007, 2008, 2009, 2010 and 2011
(Unaudited)**

Region	Number of Retailers					
	2006	2007	2008	2009	2010	2011
Jefferson City	909	864	893	857	863	890
Kansas City	1,313	1,313	1,325	1,278	1,273	1,307
Springfield	922	904	924	871	875	879
St. Louis	1,789	1,765	1,866	1,759	1,767	1,785
Total Statewide	4,933	4,846	5,008	4,765	4,778	4,861

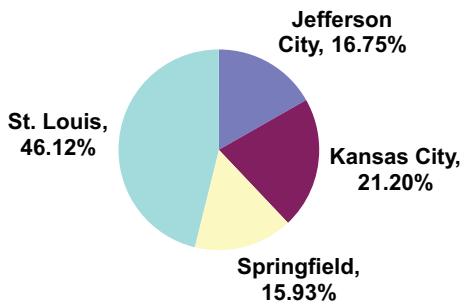
Region	Total Sales					
	2006	2007	2008	2009	2010	2011
Jefferson City	\$133,903,265	\$136,964,078	\$150,518,525	\$145,752,010	\$148,986,826	\$167,613,633
Kansas City	211,175,672	212,733,429	225,280,041	218,289,057	219,544,187	212,143,822
Springfield	170,395,799	170,597,822	180,881,058	170,350,688	164,536,657	159,408,070
St. Louis	398,043,515	413,975,329	438,813,264	434,060,139	438,796,815	461,512,881
Total Statewide	\$913,518,251	\$934,270,658	\$995,492,888	\$968,451,895	\$971,864,485	\$1,000,678,406

FY2011

Percentage of Retailers By Region



Percentage of Total Sales By Region



Source: Missouri State Lottery Commission Research Section

Note: Information is accumulated and retained in this format only for Fiscal Years 2006, 2007, 2008, 2009, 2010 and 2011. Prospectively, the data will be accumulated and, ultimately, the schedule will contain information for a ten-year period.

% of Total Retailers					
2006	2007	2008	2009	2010	2011
18.43%	17.83%	17.83%	17.99%	18.06%	18.31%
26.62%	27.09%	26.46%	26.82%	26.64%	26.89%
18.69%	18.66%	18.45%	18.28%	18.32%	18.08%
36.26%	36.42%	37.26%	36.91%	36.98%	36.72%
100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

% of Total Sales					
2006	2007	2008	2009	2010	2011
14.66%	14.66%	15.12%	15.05%	15.33%	16.75%
23.12%	22.77%	22.63%	22.54%	22.59%	21.20%
18.65%	18.26%	18.17%	17.59%	16.93%	15.93%
43.57%	44.31%	44.08%	44.82%	45.15%	46.12%
100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

**Missouri State Lottery Commission
Schedule of Demographic and Economic Statistics
Calendar Years 2002 To 2011
(Unaudited)**

Calendar Year	Statewide Population	Statewide Personal Income (millions of dollars)	Statewide Personal Income per Capita	State Unemployment Rate
2002	5,680,259	161,104	28,362	5.0%
2003	5,712,355	166,129	29,082	5.4%
2004	5,752,861	173,968	30,240	5.4%
2005	5,797,703	181,930	31,380	5.9%
2006	5,842,713	191,602	32,793	4.7%
2007	5,878,415	199,773	33,984	5.0%
2008	5,911,605	208,255	35,228	6.5%
2009	5,987,580	215,181	35,938	9.3%
2010	5,988,927	221,465	36,979	9.2%
2011	n/a	n/a	n/a	8.7%

Sources:

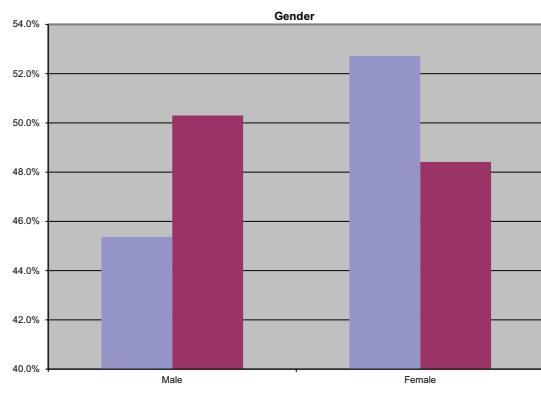
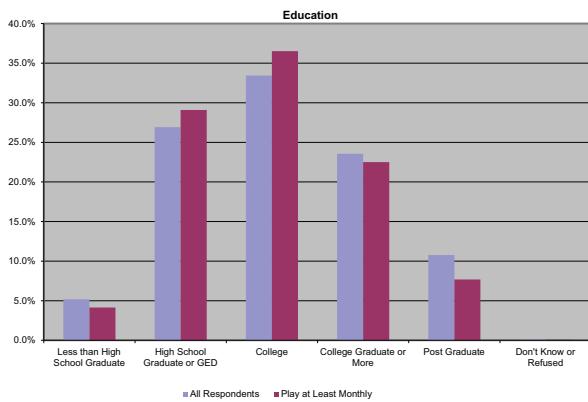
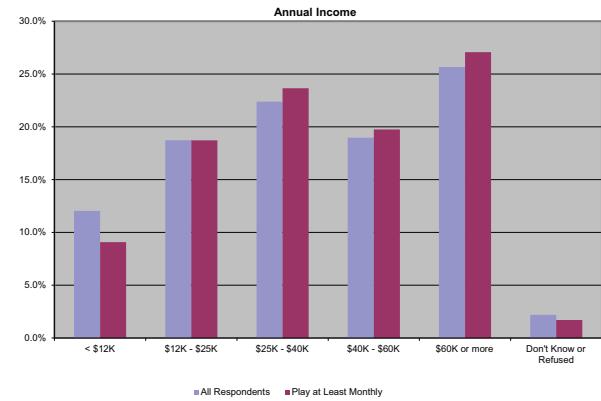
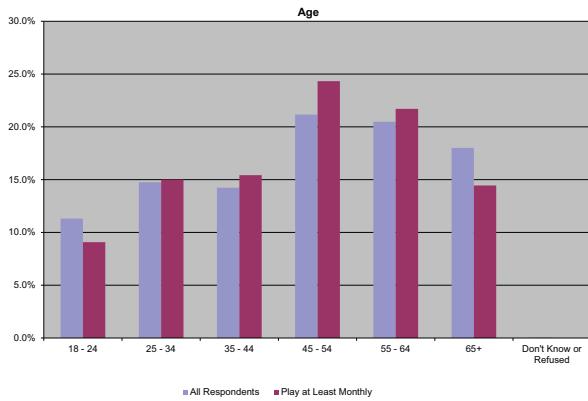
Population from U.S. Census Bureau;

Personal income from U.S. Bureau of Economic Analysis

Unemployment rate from U.S. Department of Labor, Bureau of Statistics

n/a - not yet available

**Missouri State Lottery Commission
Demographic Group Participation
Fiscal Year 2011**



Source: Missouri Lottery Track and Trend Report FY2011

**Missouri State Lottery Commission
State of Missouri Major Employers
Calendar Years 2010 and 2001**

2010

Employer	Number of Employees	Percent of Total State Employment
State of Missouri*	65,000	2.49%
Wal-Mart Associates, Inc.	40,000-45,000	1.53%-1.73%
University of Missouri	20,000-25,000	0.76%-0.96%
US Post Office	15,000-20,000	0.57%-0.76%
The Washington University	15,000-20,000	0.57%-0.76%
The Boeing Company	15,000-20,000	0.57%-0.76%
Barnes-Jewish Hospital	7,500-10,000	0.28%-0.38%
Department of Defense	7,500-10,000	0.28%-0.38%
Schnuck Markets, Inc.	7,500-10,000	0.28%-0.38%
Division of Adult Institutions	7,500-10,000	0.28%-0.38%
Department of Veterans Affairs	7,500-10,000	0.28%-0.38%
	207,500-245,000	7.9%-9.36%
Total Statewide Employment		2,600,470

2001

Employer	Number of Employees	Percent of Total State Employment
State of Missouri*	67,000	2.52%
Wal-Mart Associates, Inc.	35,000-40,000	1.32%-1.50%
University of Missouri	20,000-25,000	0.75%-0.94%
US Post Office	20,000-25,000	0.75%-0.94%
The Boeing Company	10,000-15,000	0.37%-0.56%
The Washington University	10,000-15,000	0.37%-0.56%
Trans World Airways	10,000-15,000	0.37%-0.56%
Schnuck Markets, Inc.	10,000-15,000	0.37%-0.56%
Department of Defense	7,500-10,000	0.28%-0.37%
Barnes-Jewish Hospital	7,500-10,000	0.28%-0.37%
	197,000-237,000	7.38%-8.88%
Total Statewide Employment		2,650,350

All figures are based on a calendar-year average.

*Number of state employees includes only full-time personnel and does not include college or university employees.

Sources: Missouri Economic Research and Information Center

**Missouri State Lottery Commission
Schedule of Lottery Employees
Last Ten Fiscal Years
(Unaudited)**

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Full-time	177.0	177.0	177.0	175.0	175.0	173.0	173.0	173.0	163.0	159.0
Part-time	1.5	1.5	1.5	1.5	1.5	0.5	0.5	0.5	0.5	0.5
Total	<u>178.5</u>	<u>178.5</u>	<u>178.5</u>	<u>176.5</u>	<u>176.5</u>	<u>173.5</u>	<u>173.5</u>	<u>173.5</u>	<u>163.5</u>	<u>159.5</u>
Sales										
Jefferson City	12.0	12.0	12.0	12.0	12.0	11.0	11.0	10.0	9.0	10.0
Springfield	8.0	8.0	8.0	8.0	8.0	9.0	9.0	10.0	9.0	8.0
Kansas City	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	14.0	14.0
St. Louis	19.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Inside Sales	11.0	11.0	11.0	11.0	11.0	12.0	12.0	12.0	11.0	11.0
Vault	11.0	11.0	11.0	11.0	11.0	12.0	12.0	12.0	12.0	11.0
Marketing and administration	<u>101.5</u>	<u>102.5</u>	<u>101.5</u>	<u>101.5</u>	<u>99.5</u>	<u>99.5</u>	<u>94.5</u>	<u>94.5</u>	<u>88.5</u>	<u>85.5</u>
Total	<u>177.5</u>	<u>179.5</u>	<u>178.5</u>	<u>178.5</u>	<u>176.5</u>	<u>178.5</u>	<u>173.5</u>	<u>173.5</u>	<u>163.5</u>	<u>159.5</u>

Source: Missouri State Lottery Commission Budget Office

**Missouri State Lottery Commission
Schedule of Operating Indicators
Last Ten Fiscal Years
(Unaudited)**

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Retailers-										
Statewide	5,036	5,021	5,003	5,022	4,933	4,846	5,008	4,765	4,778	4,861
Per Capita Sales	\$104	\$125	\$138	\$136	\$157	\$160	\$169	\$164	\$162	\$167

Source: Missouri State Lottery Commission Research and Licensing Sections

U.S. Lotteries' Fiscal Year 2010 Sales by Game*

(in \$millions)				Draw Games										Total Sales	PC Sales	VLT (net)
Lottery	Pop. (M)	Instant	Pulltab	3-digit	4-digit	Lotto	Cash Lotto	Power Ball	Mega Millions	Hot Lotto	Keno	Other				
Arizona	6.7	336.94		8.56	5.43	44.36	16.54	118.80	6.79			14.08	551.49	\$83		
Arkansas	2.9	335.49		5.28				35.00	7.94				383.70			
California	37.3	1,661.29		128.84	30.70	463.07	144.38		484.70	117.90	10.08	3,040.96	\$82			
Colorado	5.1	328.11				41.62	21.31	101.57	2.40			6.19	501.20	\$98		
Connecticut	3.5	593.37		115.58	95.73	29.90	35.04	85.28	11.23			30.70	996.85	\$283		
Delaware	0.9	36.12		25.86	17.78	5.56		29.95	3.32	3.76		14.59	136.94	\$154	547.70	
D.C.	0.6	49.97		56.36	68.62		14.77	20.18	4.31	2.87	12.58	0.49	230.16	\$377		
Florida	18.7	2,073.13		304.04	235.03	445.88	92.06	434.06				316.30	3,900.50	\$209		
Georgia	9.9	2,155.52		488.25	219.88	17.42	112.57	42.53	203.00		129.18	19.09	3,387.43	\$342		
Idaho	1.6	90.65	3.19	1.64		3.15	1.57	36.66	2.62	3.79		3.97	147.23	\$94		
Illinois	12.9	1,172.37		301.43	191.04	111.08	119.61	51.74	222.61			21.55	2,191.42	\$169		
Indiana	6.4	464.76	9.45	28.87	28.43	54.17	4.66	115.34	11.99			22.66	740.34	\$115		
Iowa	3.0	143.76	20.22	6.53	2.66		3.91	59.19	5.54	13.65		0.79	256.26	\$85		
Kansas	2.8	114.57	9.55	6.08		1.70	14.84	40.98	3.92	10.69	26.63	6.45	235.41	\$83		
Kentucky	4.3	458.79	12.45	123.86	36.64	18.42	13.19	99.27	9.90				772.50	\$178		
Louisiana	4.5	136.01		46.52	36.07	30.46	14.56	105.77				3.00	372.39	\$82		
Maine	1.3	152.12		5.00	3.97	23.87	3.42	24.42	0.52	2.88		0.83	217.03	\$165		
Maryland	5.7	490.85		266.95	246.67	35.23	20.76	28.85	125.27		391.80	100.20	1,706.57	\$297		
Massachusetts	6.6	3,015.74	0.91		345.11	35.42	84.64	35.50	121.86		753.83	19.09	4,412.09	\$665		
Michigan	9.9	750.85	29.08	344.20	359.02	43.83	56.05	64.46	173.46		499.58	38.69	2,359.23	\$238		
Minnesota	5.3	338.11		12.94			27.35	87.25	6.48	14.90		11.93	498.96	\$94		
Missouri	6.0	638.06		68.18	29.12	28.75	26.71	112.71	12.06		55.19	1.08	971.86	\$162		
Montana	1.0	14.27				2.93	4.01	17.46	0.73	4.42		3.02	46.85	\$48		
Nebraska	1.8	66.95		3.16		2.07	13.44	40.55	2.40			2.01	130.58	\$72		
N. Hampshire	1.3	160.30		5.24	5.13	12.70	4.28	37.41	3.02	4.12		0.97	233.15	\$176		
New Jersey	8.7	1,301.54		435.27	264.13	81.92	143.98	71.22	307.10				2,605.15	\$298		
New Mexico	2.0	78.42		3.41			7.65	41.13	3.85	9.13			143.59	\$71		
New York	19.6	3,611.05		845.40	765.85	178.24	341.92	36.32	558.17		411.90	32.23	6,781.07	\$346	1,037.3	
N. Carolina	9.5	855.58		222.78	57.37		60.87	198.76	25.97				1,421.33	\$150		
N. Dakota	0.7					2.42	3.58	12.66	1.73	4.03			24.42	\$37		
Ohio	11.5	1,379.01		366.75	201.25	42.84	67.05	23.56	215.78		130.27	63.67	2,490.19	\$216		
Oklahoma	3.7	88.97		6.28			5.45	79.65	6.94	12.47			199.75	\$54		
Oregon	3.9	113.27			1.26	40.14		51.22	3.49		95.34	15.99	320.70	\$83	706.98	
Pennsylvania	12.6	1,748.71		387.75	260.35	81.47	180.43	313.48	40.83			52.72	3,065.72	\$243		
Rhode Island	1.1	77.98	0.10	25.18			4.76	42.69	4.07		77.71	2.26	234.72	\$222	467.77	
S. Carolina	4.6	646.18		136.42	63.39	8.80	20.30	116.95	15.12				1,007.16	\$219		
S. Dakota	0.8	20.15				2.82	2.48	15.66	0.31	4.11			45.54	\$56	215.46	
Tennessee	6.3	812.36		57.22	25.64	9.53	11.90	127.89	15.94				1,060.48	\$167		
Texas	25.2	2,760.97		274.90	58.09	255.89	66.28	68.47	204.70			49.06	3,738.37	\$148		
Vermont	0.6	71.42		1.56	1.29	7.71	1.47	10.17	1.06	1.92		0.90	97.48	\$157		
Virginia	8.0	711.16		246.90	197.46	28.44	28.24	34.56	174.88			13.49	1,435.13	\$180		
Washington	6.7	289.33		16.99	13.65	54.81	22.34	20.00	68.64		5.27		491.02	\$73		
W. Virginia	1.8	97.48		8.40	4.70		5.51	48.59	2.68	6.45	7.41		181.22	\$99	1,144.63	
Wisconsin	5.7	269.37	3.90	26.20	12.15	18.82	51.10	89.30	10.26				481.10	\$85		
Total	293.3	30,711.0	88.8	5,414.8	3,883.6	2,265.4	1,875.0	3,227.2	3,087.6	99.2	2,714.6	878.0	54,245.2	\$185	4,119.8	
% of total				56.6%	0.2%	10.0%	7.2%	4.2%	3.5%	5.9%	5.7%	0.2%	5.0%	1.6%	100.0%	

* Fiscal year ends June 30 for all U.S. states, except New York (March 31), Texas (August 31), D.C. and Michigan (Sept. 30)

Source: LaFleur's 2010 World Lottery Almanac

U.S. Lottery Fiscal Year 2010 Sales, Prizes & Gov't Transfers Measured by Gross State Product

Lottery	2010 Pop. ¹ (Mil)	2009 Gross Domestic Product ²	Ticket Sales ³	VLT (net)	Prizes ⁴	Agent Comm. ⁵	Expense ⁶	Gov't Transfers ⁷	PC Sales	PC Gov't	Ticket Sales as % of GDP	Gov't Transfers as % of GDP ⁷	Prizes as % of Ticket Sales	Gov't Transfers as % of Ticket Sale
Arizona	6.7	232,915	551.49		333.11	37.00	39.97	141.86	\$83	\$21	0.237%	0.061%	60.4%	25.7%
Arkansas	2.9	93,015	383.70		247.72	21.58	33.28	83.00	\$132	\$29	0.413%	0.089%	64.6%	21.6%
California	37.3	1,739,674	3,040.96		1,611.37	214.48	190.94	1,072.50	\$82	\$29	0.175%	0.062%	53.0%	35.3%
Colorado	5.1	231,890	501.20		310.36	38.15	39.63	112.94	\$98	\$22	0.216%	0.049%	61.9%	22.5%
Connecticut	3.5	205,735	996.85		608.76	55.89	44.26	288.12	\$283	\$82	0.485%	0.140%	61.1%	28.9%
Delaware ^{3,4}	0.9	54,948	136.94	547.70	72.54	7.38	16.92	331.61	\$154	\$372	0.249%	0.603%	53.0%	
D.C.	0.6	87,766	230.16		118.93	14.48	29.98	66.75	\$377	\$109	0.262%	0.076%	51.7%	29.0%
Florida	18.7	668,569	3,900.50		2,346.16	216.21	129.81	1,246.79	\$209	\$67	0.583%	0.186%	60.2%	32.0%
Georgia	9.9	360,504	3,387.42		2,129.14	239.30	140.44	883.88	\$342	\$89	0.940%	0.245%	62.9%	26.1%
Idaho	1.6	50,326	147.23		88.28	8.73	13.20	36.64	\$94	\$23	0.293%	0.073%	60.0%	24.9%
Illinois	12.9	571,409	2,191.42		1,313.66	110.23	120.71	651.73	\$169	\$50	0.384%	0.114%	59.9%	29.7%
Indiana	6.4	240,833	740.34		456.30	51.08	49.50	189.66	\$115	\$29	0.307%	0.079%	61.6%	25.6%
Iowa	3.0	131,275	256.26		150.45	16.11	32.34	57.91	\$85	\$19	0.195%	0.044%	58.7%	22.6%
Kansas	2.8	114,615	235.41		132.61	13.67	21.96	67.91	\$83	\$24	0.205%	0.059%	56.3%	28.8%
Kentucky	4.3	141,711	723.43		421.91	47.33	40.28	214.25	\$167	\$49	0.510%	0.151%	58.3%	29.6%
Louisiana	4.5	187,929	372.39		189.75	20.63	31.14	133.70	\$82	\$30	0.198%	0.071%	51.0%	35.9%
Maine	1.3	46,422	217.03		133.44	13.85	19.50	52.87	\$165	\$40	0.468%	0.114%	61.5%	24.4%
Maryland	5.7	259,297	1,706.57		1,034.16	113.13	57.97	510.61	\$297	\$89	0.658%	0.197%	60.6%	29.9%
Massachusetts	6.6	333,413	4,412.09		3,174.89	259.12	86.24	903.48	\$665	\$136	1.323%	0.271%	72.0%	20.5%
Michigan	9.9	340,536	2,359.23		1,381.63	202.45	105.94	713.65	\$238	\$72	0.693%	0.210%	58.6%	30.2%
Minnesota	5.3	239,043	498.96		305.32	29.87	41.84	122.25	\$94	\$23	0.209%	0.051%	61.2%	24.5%
Missouri	6.0	218,070	971.86		628.06	59.90	36.92	259.67	\$162	\$43	0.446%	0.119%	64.6%	26.7%
Montana	1.0	32,091	46.85		25.94	2.34	8.00	10.53	\$48	\$11	0.146%	0.033%	55.4%	22.5%
Nebraska	1.8	79,033	130.58		75.03	8.11	15.80	32.00	\$72	\$18	0.165%	0.040%	57.5%	24.5%
N. Hampshire	1.3	54,454	233.77		138.91	12.74	16.28	66.22	\$177	\$50	0.429%	0.122%	59.4%	28.3%
New Jersey	8.7	437,362	2,605.10		1,511.91	144.89	66.41	924.01	\$298	\$106	0.596%	0.211%	58.0%	35.5%
New Mexico	2.0	68,441	143.59		78.61	9.36	12.03	43.61	\$71	\$21	0.210%	0.064%	54.7%	30.4%
New York	19.6	981,079	6,781.07	1,037.25	3,952.01	405.87	252.62	2,666.38	\$346	\$136	0.691%	0.272%	58.3%	
N. Carolina	9.5	364,422	1,421.33		835.30	99.34	59.25	433.21	\$150	\$46	0.390%	0.119%	58.8%	30.5%
N. Dakota	0.7	29,360	24.42		12.64	1.25	4.28	5.72	\$37	\$9	0.083%	0.019%	51.8%	23.4%
Ohio	11.5	429,812	2,490.19		1,513.72	153.43	109.42	728.63	\$216	\$63	0.579%	0.170%	60.8%	29.3%
Oklahoma	3.7	142,482	199.75		105.09	13.15	13.90	70.47	\$54	\$19	0.140%	0.049%	52.6%	35.3%
Oregon ^{3,4}	3.9	160,484	320.70	706.98	206.00	27.24	25.66	541.05	\$83	\$140	0.200%	0.337%	64.2%	
Pennsylvania	12.6	500,080	3,065.72		1,867.08	160.11	123.57	915.74	\$243	\$72	0.613%	0.183%	60.9%	29.9%
R. Island ^{3,4}	1.1	43,177	234.62	467.77	141.17	28.67	9.63	344.67	\$222	\$326	0.543%	0.798%	60.2%	
S. Carolina	4.6	144,216	1,007.16		628.34	71.17	39.04	272.49	\$219	\$59	0.698%	0.189%	62.4%	27.1%
S. Dakota ^{3,4}	0.8	35,560	45.54	215.46	25.52	2.53	5.15	119.78	\$56	\$146	0.128%	0.337%	56.0%	
Tennessee	6.3	224,458	1,060.11		651.15	74.33	49.83	288.87	\$167	\$46	0.472%	0.129%	61.4%	27.2%
Texas	25.2	1,053,905	3,738.37		2,300.18	196.16	185.28	1,063.09	\$148	\$42	0.355%	0.101%	61.5%	28.4%
Vermont	0.6	23,365	97.48		61.12	5.70	9.11	21.58	\$157	\$35	0.417%	0.092%	62.7%	22.1%
Virginia	8.0	370,168	1,435.13		852.71	80.40	73.84	430.20	\$180	\$54	0.388%	0.116%	59.4%	30.0%
Washington	6.7	308,898	491.02		291.83	31.01	43.17	142.49	\$73	\$21	0.159%	0.046%	59.4%	29.0%
W. Virginia ^{3,4}	1.8	55,044	181.23	1,144.63	107.98	12.67	10.96	580.91	\$99	\$318	0.329%	1.055%	59.6%	
Wisconsin	5.7	224,027	481.10		272.99	33.32	31.10	128.08	\$85	\$23	0.215%	0.057%	56.7%	26.6%
Total	293.3	12,311,813	54,196.3	4,119.8	32,843.8	3,364.4	2,487.1	17,971.5	\$185	\$61	0.440%	0.146%	60.6%	

Fiscal year ends June 30 except New York (March 31), Texas (August 31) and D.C. and Michigan (Sept. 30).¹ Source: U.S. Census Bureau

² Source: U.S. Bureau of Economic Analysis; ³ This data represents only revenue from traditional lottery games; ⁴ Prizes do not include VLT prizes paid

⁵ Traditional lottery commissions only; ⁶ Traditional lottery expenses only; ⁷ Includes transfers for VLT operations

Note: If a lottery's operating statement did not include actual profits raised for government, the "government transfers" may represent the net income.

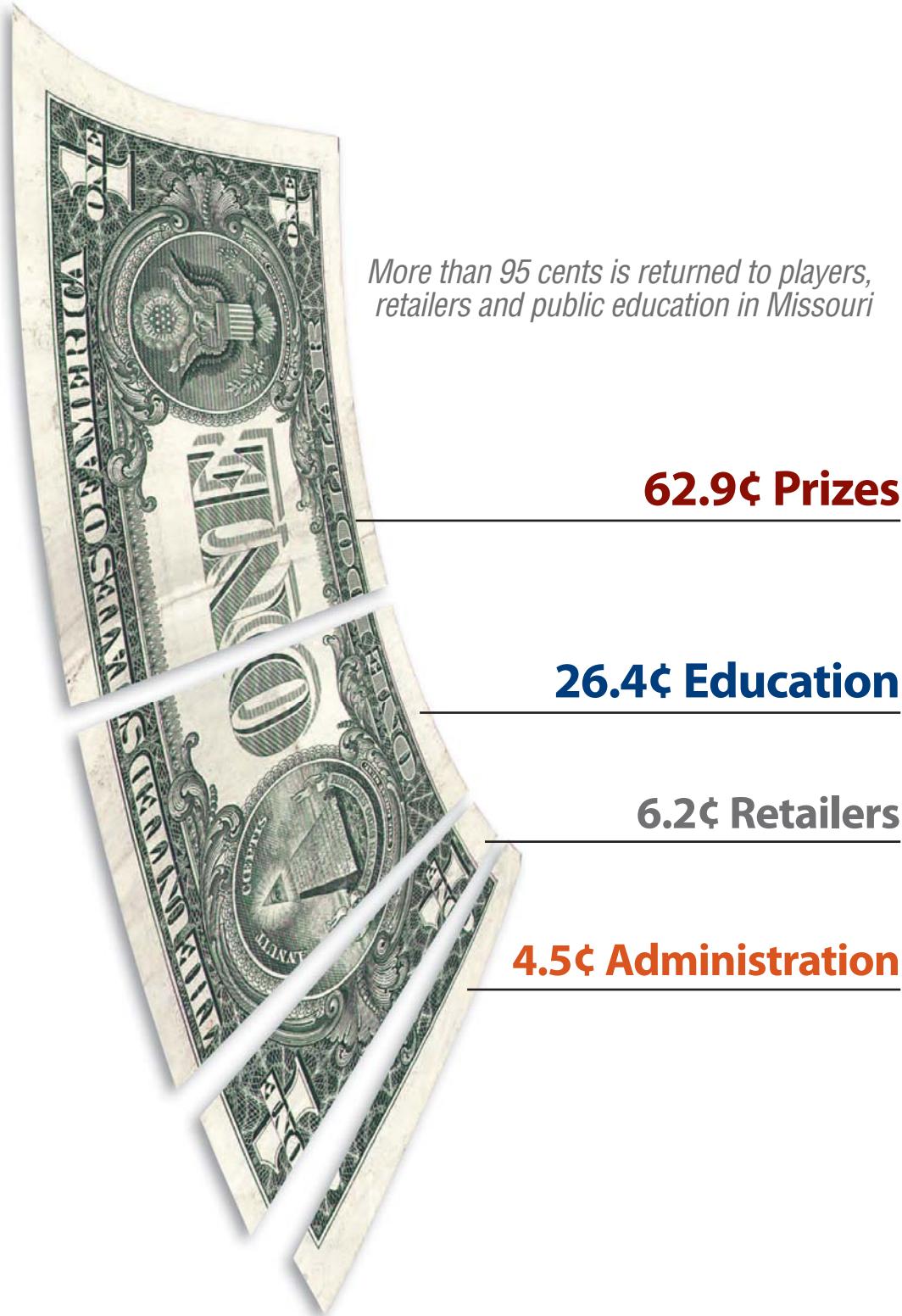
Source: LaFleur's 2010 World Lottery Almanac

**Missouri State Lottery Commission
Schedule of Capital Asset Information
Last Ten Fiscal Years**

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Owned buildings - square feet										
Headquarters										
1823 Southridge Drive										
Jefferson City, Mo. 65109	62,696	62,696	62,696	62,696	62,696	62,696	62,696	62,696	62,696	62,696
Distribution Center										
911 Bubba Lane										
Jefferson City, Mo. 65109	16,017	16,017	16,017	16,017	16,017	16,017	16,017	16,017	16,017	16,017
Fleet of owned vehicles										
Passenger vans - sales staff	54	55	49	49	49	49	49	49	49	49
Delivery vans	5	4	3	3	3	3	3	3	3	0
Passenger vans - vehicle pool	8	10	8	3	12	11	10	11	8	11
Passenger cars - vehicle pool	11	9	9	8	8	4	3	1	1	0
Trucks	4	4	4	3	3	3	3	3	3	3
Event trailers	1	1	1	1	1	1	1	1	1	1
	<u>83</u>	<u>83</u>	<u>74</u>	<u>67</u>	<u>76</u>	<u>71</u>	<u>69</u>	<u>68</u>	<u>65</u>	<u>64</u>

Source: Missouri State Lottery Commission Maintenance and Vehicle Sections

**Division of Each Dollar Spent on the
Missouri Lottery - Fiscal Year 2011**



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Compliance Section

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Missouri State Lottery Commission
Jefferson City, Missouri

We have audited the basic financial statements of the business-type activity of the Missouri State Lottery Commission (the Lottery), an enterprise fund of the State of Missouri, as of and for the year ended June 30, 2011, and have issued our report thereon dated October 17, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Lottery's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Lottery's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Lottery's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lottery's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. The Lottery's response to a prior year finding is described in the accompanying summary schedule of prior year audit finding.

This report is intended solely for the information and use of the Missouri State Lottery Commission and the Missouri State Legislature and is not intended to be and should not be used by anyone other than these specified parties.

UHY LLP

St. Louis, Missouri
October 17, 2011

**MISSOURI STATE LOTTERY COMMISSION
(An Enterprise Fund of the State of Missouri)**

**SCHEDULE OF CURRENT YEAR FINDINGS
June 30, 2011**

Not applicable - none were noted in the current year.

**MISSOURI STATE LOTTERY COMMISSION
(An Enterprise Fund of the State of Missouri)**

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDING
June 30, 2011**

Prior Year Finding No. 2010-1 – Significant Deficiency (*related to year ended June 30, 2010*)

Condition – Controls and processes which had functioned in previous years were not followed in the current year for converting cash basis financial reports to the accrual basis in order to prepare year-end financial statements.

Recommendation – The prior auditors recommended that the controls and processes be followed to ensure the accurate conversion of cash basis financial information to the accrual basis.

Current Status – The Lottery's management reviewed its controls and processes over its financial reporting to properly reflect accrual basis financial reporting for the year ended June 30, 2011.

In addition, the Lottery installed a new general ledger package on June 3, 2011. This new software system became operational effective August 30, 2011. Procedures for utilizing the new system are in the process of refinement. The Lottery plans to use the new general ledger system for fiscal year 2012 to assist in financial statement reporting.